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# Management RECORD

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- Stock Options for Nonexecutives
- Status of the Christmas Bonus
- Industry Considers Mental Health
- More on Top Executive Pensions



NATIONAL INDUSTRIAL CONFERENCE BOARD, INC.

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#### Management Record is prepared by

**Division of Personnel Administration:** S. Avery Raube, Director; Harold Stieglitz, Assistant Director; Anthony P. Alfino, Marie P. Dorbandt, Harland Fox, Stephen Habbe, John J. McKew, Mitchell Meyer, George V. Moser, J. Roger O'Meara, Pauline Reece, Geneva Seybold, Audrey Stahl, Doris M. Thompson, George W. Torrence, Walter S. Wikstrom, N. Beatrice Worthy.

**Division of Consumer Economics:** Frank Gaston, Director; Zoe Campbell, David M. Furman, Phoebe F. Gellen, Leona L. Goodman, Leni B. Rumel, Leo B. Shohan, Helen Swanson.

**Editorial Staff:** Aileen L. Kyte, Sanford Rose. **Charts:** Paulette le Corre Lydon, Madeleine Briskin, Kenneth D. Goodman, Rosanne W. Reilly, Natividad Avilez.

# Management Record

November, 1959

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## • In the Record •

### Stock Options for Nonexecutives

Stock option plans are generally set up for a company's "key" employees. And as such, the consensus is that they have proved successful in motivating executives to greater effectiveness in behalf of the company.

Perhaps on this basis, some companies have reasoned that an option plan that was open to all employees would be a potent factor in improving employee morale and linking the individual's interest to the company's success. At any rate, THE CONFERENCE BOARD learned of eleven firms that have a stock option plan which covers virtually all employees—and in some cases the original plan proved so successful it has been repeated.

Starting on the next page, the Board reports on these eleven companies' plans—first on the basis of their general characteristics and then in terms of the experience of the companies with each individual plan.

### What's Happening to the Christmas Bonus

The word bonus is a corruption of the Latin bonum, i.e., a "good thing." Most people—nearly always the recipient and frequently the donor—believe that bonuses are "good things." However, some companies are beginning to have doubts about the traditional Christmas or year-end bonus.

Conference Board research indicates that nearly one-quarter of the surveyed companies that formerly gave this annual stipend have discontinued the practice in the past five years. Why? The reasons range from lack of employee appreciation to today's high cost of fringe benefits. Yet many executives still maintain that the Yuletide premium is a matter of sound personnel administration. For a review of the current status of the Christmas bonus, see the article starting on page 358.

### Industry Considers Mental Health

Recently *The New York Times* reported that an eminent physician called for an intensive investigation of the role of mental factors in the growth of human cancer. This is indicative of the growing trend toward viewing physical and emotional illness as closely interrelated. Yet company health programs for the most part ignore mental disorders—even though it is estimated that the direct cost of this disability to industry last year was \$3 billion.

Perhaps significantly, some responsible executives are now proposing that companies take steps to help employees who are mentally ill. They see it not only as the humane thing to do, but they also conclude that neglecting the problem of mental illness will cost far more than solving it.

In the article starting on page 361, some of the background of this complex problem area is given. And possible ways that companies might proceed in helping employees who have mental difficulties are explored.

### More on Top Executive Pensions

There is no virtue in size per se, says the proverb. But the top executive might be pardoned if he thinks otherwise. For, in general, the larger the company size, the higher the executive salary. And the higher the salary, the higher the pension.

Recently, THE CONFERENCE BOARD undertook to uncover the relationship between executive pensions and salary level and company size. A survey was made of pensions for the three highest-paid executives in 450 manufacturing companies. One of the conclusions reached is that, while the dollar amount of the pension varies directly with salary level and company size, the percentage of compensation that the pension represents tends to be the same regardless of salary or firm size. For the full story in charts and text, see the article on page 369.

### Arbitrator Analyzes "Work Practices" Provision of U.S. Steel Labor Contract

One of the principal stumbling blocks to a settlement of the steel strike is the controversial Section 2-B clause of the present labor contract. Management wants substantial revisions in order to cut what it feels are excessive costs. Labor is resisting on the grounds that revisions would give management "unilateral" authority to eliminate jobs, institute speed-ups, etc.

What is Section 2-B? Has it operated to restrict some of management's prerogatives? What has been the viewpoint of successive boards of arbitration? The article on page 365 sheds light on these questions by examining the decision of a board of arbitration on four recent grievances that centered around alleged violations of the hotly disputed clause. Included in this timely article is a complete text of Section 2-B.

# Stock Options for Nonexecutives

**Eleven companies that have initiated stock option plans covering all employees report on how their plans have been received and how they are working**

**S**TOCK OPTION PLANS keep growing in popularity. At the end of 1958, more than 800 of the companies listed on the New York and American Stock Exchanges had such plans.<sup>1</sup> In the great majority of these plans, however, the options are reserved for executives and "key employees" only. As far as THE CONFERENCE BOARD has been able to ascertain, relatively few companies extend options to employee groups below the executive or "key employee" level.

This article describes the plans and experience of companies with a stock option plan that covers all employees or (in one case) all clerical and salaried employees. The following firms are the only ones known to the Board which have plans that extend stock options below the executive level:

1. Acme Steel Company
2. The Carpenter Steel Company
3. Chain Belt Company
4. Diamond Alkali Company
5. The Grand Union Company
6. Inland Steel Company
7. The Mead Corporation
8. Minnesota Mining & Manufacturing Co.
9. Chas. Pfizer & Co., Inc.
10. Royal McBee Corporation
11. The L. S. Starrett Company

All these eleven companies seem pleased with the results to date. As a matter of fact, in the four cases where the original plan has already run its course, it has been repeated. This was done at Grand Union, Pfizer and Inland Steel (though Inland Steel, for reasons that will be explained later, has since switched to a "special" stock purchase plan). Minnesota Mining & Manufacturing's plan is now enjoying its third go-around.

The actual experience figures of the eleven companies will be reported later, when each company's plan is discussed in detail. First, however, it may be helpful to compare the eleven plans on the basis of their general characteristics.

## ELIGIBLE EMPLOYEES

As already indicated, all the plans but one are designed to cover "all" employees. The exception is

<sup>1</sup> See "Current Stock Option Plans," *Management Record*, September, 1959, p. 270.

the Chain Belt plan, which applies to "executive, administrative, sales and clerical employees." However, Chain Belt, Carpenter Steel, Mead, Minnesota Mining and Royal McBee all have separate plans designed for executives only; key employees holding options in these plans are not covered by the all-employee stock option plan.

In addition, in two other plans union membership could affect eligibility. The Inland Steel plan did not cover employees who were represented by the United Mine Workers of America, because that union requested that its members be excluded; in the Diamond Alkali plan, coverage was denied any employees in a bargaining unit if the bargaining agent of that unit filed written protest against the extension of the plan to its unit. But, because no such protest was filed, this limitation was not actually applied at Diamond Alkali.

Except for two plans, a covered employee had to have a specified amount of service with the company at the time the plan started in order to become a participant. This requirement was fixed at two years in the Acme Steel, Carpenter Steel, Chain Belt, Inland Steel, and Royal McBee plans. In the Starrett plan six months were enough; a little over four months were required under the Minnesota Mining plan; the Pfizer plan called for one year (although the committee was empowered to waive this requirement). At the other extreme was the Grand Union plan, which limited eligibility to store managers, route division regional managers, office department heads and holders of equivalent or higher positions with three years of continuous, full-time employment with the company and to all other employees with five years of such employment.

At Diamond Alkali and Mead, length of service was not a factor in determining participation. However, Minnesota Mining disqualified men who had reached their sixty-fourth birthday and women who had attained their fifty-ninth birthday.<sup>1</sup>

<sup>1</sup> Diamond Alkali excluded employees on temporary layoff or leave of absence at the time the plan took effect. The Mead plan, on the other hand, specifically included employees on "layoff with recall rights and employees on authorized leave of absence." Minnesota Mining excluded employees on temporary layoff or leave of absence (unless an employee was absent for military or sick leave). Booklets of the other plans did not cover the layoff or leave-of-absence situation.

It should be noted that these service requirements (and any other eligibility requirements) are applied at the time the plan begins operation; once it is under way, no employee who subsequently meets the eligibility requirements can enter the plan. Only two companies—Diamond Alkali and Minnesota Mining—allow an employee to join the plan after the initial opening. In these companies employees can qualify for participation on successive anniversary dates of the plan if there still are enough shares for optioning.

### OPTION STOCK—ITS PRICE AND AMOUNT

Company stock used for options in the eleven plans invariably is authorized stock that has not been issued. In the Minnesota Mining plan, however, the company is given the right to "go into the market and purchase its stock for sale under the plan at such times as management feels that the stock is selling below its fair market value."

When the eleven plans were started (this includes only the latest plan in cases where a company has had more than one), shares of stock were reserved for optioning as follows:

Number of Shares	Company Plan
1,500,000	Pfizer
350,000	Minnesota Mining
250,000	Inland Steel and Mead
200,000	Acme Steel and Grand Union
190,000	Diamond Alkali
100,000	Royal McBee
40,000	Carpenter
31,000	Chain Belt
20,000	Starrett

Determining the number of shares of stock to be re-

### "Restricted" Stock Option Plans

A stock option plan is "restricted" when it conforms to the following requirements of Section 421 of the Internal Revenue Code:

- Option grants are to be limited to employees of the issuing corporation or its subsidiaries.
- Stock is to be purchased by optionees while actively employed, or within three months after termination of employment or retirement.
- Option grants are not transferable, except by inheritance.
- Terms of options granted on or after June 22, 1954 are not to exceed ten years—or five years in the case of optionees owning more than 10% of the outstanding voting stock.
- Employees may not sell stock within two years from the date of the option grant, nor within six months from the date the stock is acquired.
- Stock prices may not be less than 85% of the fair market value, or less than 110% of such value in the case of employees owning over 10% of the outstanding voting stock.

served for optioning in a plan that extends below the executive level presents a problem that is peculiar to this type of plan. Eligible employees are usually granted options for as many shares as may be purchased at the option price by a specified percentage of the individual's annual earnings. But there is no way of knowing, at the time the plan is drawn up, how many eligible employees will actually participate and to what extent they will exercise their options. Most plans, therefore, anticipate the possibility of over-subscription and provide for a prorated cutback in case there are not enough shares in the plan to meet the demand. This provision, incidentally, had to be applied when the Royal McBee plan got under way.<sup>1</sup>

On occasion, too, the number of shares originally set aside for optioning in the eleven plans has had to be adjusted to reflect subsequent changes in capitalization. In the 1951 plan of Grand Union, for example, 64,000 shares were initially made available for options; yet between 1952 and 1956, adjustments for stock dividend payments and stock splits enabled optionees to purchase a total of 150,364 shares at an adjusted option price.

### The Option Price

Seven of the eleven plans allow the option price to be set at 95% of the fair market value of the stock. In the Royal McBee and Starrett plans, the option price is set at 100% of fair market value; in the Acme plan, it's 90%, and in the Chain Belt plan, 85%.

"Fair market value" is defined in four of the plans as the closing sale price of the stock on the day the plan took effect; two of the plans define it as the average of the high and low sale price on that day; and the other five plans leave the interpretation of the term to the discretion of the stock option committee.

### MAXIMUM SHARES PER INDIVIDUAL

In most of the plans, the number of shares each individual participant may take under option seems to be proportioned to the amount of money he can be expected to save through periodic payroll deductions over the life of the plan. The actual assignment, on this basis of ability to pay, is left to the judgment of the stock option committee in the Grand Union, Pfizer,<sup>2</sup> and Starrett plans. In the other plans, however, the size of individual options is determined by a fixed formula. Each participant is allowed the number of shares that could be purchased at the option price by a given percentage of his annual compensation. This is 25% in the Chain Belt and Inland Steel plans, and 30% in the other six plans.<sup>3</sup>

<sup>1</sup> See "Stock Options for All Employees," *Management Record*, October, 1958, p. 338.

<sup>2</sup> At Pfizer the committee fixes a formula for option grants that is generally based on estimated ability to pay; but once this formula is fixed, it is not varied for individuals.

<sup>3</sup> The 30% figure applies only to original participants in the

Five of the plans place a further limitation on the number of shares that may be optioned to any one employee. For example, no participant in the Chain Belt plan may be optioned more than a total of 150 shares, regardless of how the plan's 25%-of-annual-compensation formula works out in his case. There is also a flat maximum, fixed at 13,500 shares per individual participant, in the Pfizer plan; and the Starrett plan not only imposes a maximum of 500 shares, but a minimum as well—no option may cover less than five shares. In the Grand Union plan, options issued to any one participant may not aggregate more than 5% (or 10% in the case of the company president) of all the shares in the plan. And under the Diamond Alkali plan, if \$3,600 will buy less shares at the option price than could be purchased by the specified percentage of an individual's annual compensation, then the number of shares \$3,600 will buy is the maximum that individual may option.<sup>1</sup>

"Annual compensation" is defined in seven of the eleven plans to include all the compensation (base pay plus overtime, bonuses, incentive awards, etc.) which the participating employee received from the company during the year preceding the effective date of the plan.<sup>2</sup> The other four plans take a different approach. In the Mead plan, the stock option committee is given the power to determine what constitutes annual compensation. The Diamond Alkali plan spells it out as either the straight-time hourly base rate multiplied by 2,080, or the monthly base rate multiplied by twelve. Only base compensation is counted in, too, in the Starrett plan. And in the Pfizer plan, individual options are granted on the basis of the rate of annual compensation (excluding overtime, other premium pay and any Christmas bonus, but including all other bonuses) as of a specified date.

## PAYROLL DEDUCTION PROCEDURES

Within a specified time after the stock option plan takes effect, each eligible employee who wishes to

Diamond Alkali and Minnesota Mining plans. But in both these plans, new groups of employees can qualify for entry on successive anniversary dates if there are still shares available for optioning. The percentage of annual compensation used in computing their individual options is 20% on the first and 10% on the second anniversary of the Diamond Alkali plan; 22½% on the first, 15% on the second, and 7½% on the third anniversary of the Minnesota Mining plan.

Incidentally, the 25% figure given above for Inland Steel applies only to that company's first plan; in the second plan, the percentage was raised to 30%.

<sup>1</sup> For participants entering the plan on its first anniversary date, the limiting figure is \$2,400; for those entering on the second anniversary date, it is \$1,200.

<sup>2</sup> There are these exceptions. The Carpenter Steel and Royal McBee plans specify total annual compensation in either one of the two years preceding the plan's effective date. And the Minnesota Mining plan defines annual compensation as the greater of (1) total compensation for the preceding year, or (2) an amount representing annual compensation as computed on the basis of the employee's earnings during the first quarter of the year in which the plan went into effect.

participate must indicate the number of shares he plans to buy (but within the maximums discussed above). At the same time he usually has to authorize the company to start deducting regular amounts from his pay for deposit in his individual stock option account.<sup>1</sup>

In five of the eleven plans, eligible employees were allowed thirty days to authorize payroll deductions; this deadline was set at forty days in the Diamond Alkali, Mead, and Minnesota Mining plans. In the Pfizer plan, the deadline was determined by the stock option committee and then entered on the face of each individual option at the time of its grant. And in the Grand Union plan, payroll deductions could be authorized at any time. Chain Belt's plan was the only one that made no provision for payroll deductions. Eligible employees were granted options that did not expire until the end of the plan (or the prior termination of employment). The exercise of any option required full payment in cash.

The amount and frequency of the payroll deductions are figured out so that, over the life of the plan, the

<sup>1</sup> If an eligible employee turns down his option he loses all rights to participate during the life of the plan, except in the Chain Belt plan where there are no payroll deductions.

## The Tax on Option Gains

If a stock option plan is "restricted" (see box on page 355), any gain from the resale of optioned stock is taxed as a capital gain.<sup>1</sup> This means, in effect, that the rate of tax on such a gain need never exceed 25 cents on the dollar.

Here's how it works out. As shown on Schedule D of the individual income tax return (Form 1040), the federal taxing authorities have set up a break point that controls the computation of tax on capital gains. This break point is \$18,000 for single taxpayers, \$24,000 for heads of household, and \$36,000 for taxpayers filing joint returns. If the total taxable income of a taxpayer reporting a gain on the resale of optioned stock is below the break point, he enters only 50% of the gain in computing his tax liability at the regular tax rate on Schedule D. On the other hand, if his total taxable income is above the break point, then he may use the alternative tax in computing his liability with regard to the capital gain. The alternative tax imposes a flat 25% rate on the amount of the gain.

<sup>1</sup> Most plans fix the option price at 95% of fair market value. It should be added, however, that an option exercised at less than 95% of market gets less favorable tax treatment at the time of sale than one exercised at 95% or more of market. In the latter case, the entire difference between cost and sale price is taxed as a capital gain. In the case of an option exercised at less than 95% of market (the price of a "restricted" option can go as low as 85% of market), the difference between the option price and the market value at the time the option was granted—or, if less, the market value at the time of disposition—is taxed at ordinary income rates; only the balance is taxed as a capital gain.

participant will have saved enough to purchase the number of shares he has taken under option. For example, if he is paid weekly and subscribes for thirty shares at an option price of \$20 a share in a plan with a three-year life, he would have \$4 withheld from each pay check for 152 weeks (the number of pay periods in the life of the plan after the authorization period expires). Thus, when the plan ended, he would have \$608 credited to his account—\$8 more than the \$600 needed to purchase the thirty shares he optioned at the \$20 price. The excess is refunded to him along with the interest he earned on his savings.<sup>1</sup>

At any time during the life of the plan, the participant has the right either to reduce the amount of the deductions or to withdraw all or any part of his savings. In that event, the number of shares under his option is decreased in proportion to the size of the reduction or the withdrawal. In fact, the participant is never obliged to purchase the shares he options. He may treat his option account as a forced savings account and have all the savings returned to him with interest, without purchasing a single share of the optioned stock.

#### Use of Other Funds

The Mead and Minnesota Mining plans limit the total number of shares that can be purchased at the option price to the size of the credit balance standing in the employee's stock option account at the time of purchase.

The other nine plans, however, allow optionees to use other sources of income as well as payroll deductions in the purchase of their options. In the Diamond Alkali plan, for example, participants may reduce the amount of periodic payroll deductions by asking the company to apply their Christmas gifts each year ( $2\frac{1}{2}\%$  of annual compensation) to their accounts in the plan. All the other plans permit additional cash payments into the stock option account, so long as these cash payments plus the payroll deductions (exclusive of interest) do not add up to more than the total price of their optioned stock. Further, in the Starrett plan, where participants are repaying the company for stock already issued in their name, savings from payroll deductions and cash deposits may be supplemented by any dividends paid on the stock.<sup>2</sup>

#### WHEN IS STOCK PURCHASED?

In the Starrett plan, the optioned stock is issued in the name of the participant as soon as he signs up

<sup>1</sup> The rate of interest paid on stock option account savings ranges from  $1\frac{1}{2}\%$  to  $5\%$  per annum. Some companies merely deposit the savings in a bank to the individual account of the participant. The account then earns whatever rate of interest the bank pays.

<sup>2</sup> Payments through dividend credits, payroll deductions and cash must amount, on a cumulative basis, to no less than 10% of the purchase price per year. Moreover, at the end of the first five years (total repayment must be made within ten years), at least 50% of the purchase price must be repaid from sources other than dividend credits.

### Stock Purchase vs. Stock Option

Many companies, of course, have set up regular stock purchase plans to provide the incentive of stock ownership for nonexecutive employees. Although these plans are very similar to a stock option, they differ in one basic respect. The employee who buys company stock under a regular stock purchase plan pays the market price prevailing on the date of the *actual purchase*.<sup>1</sup> The employee who buys stock under an option plan, on the other hand, pays the market price prevailing at the time the option is granted; this price (usually a discount price) remains the same throughout the life of the option, regardless of what the market value of the stock is at the time the stock is actually purchased.<sup>2</sup>

<sup>1</sup> Sometimes the employee pays somewhat less than the market price at the time of purchase. A few companies add a stock bonus feature to the stock purchase plan. Under these plans, the company gives the employee an extra share after he has purchased a specified number of shares.

<sup>2</sup> Stock option plans and regular stock purchase plans are only two types of plans for employee acquisition of company stock. A subsequent issue of the *Management Record* will analyze another type of plan that has received major attention in the last few years—the "savings-investment" or "thrift" plan.

and pays the first installment toward the repayment of the company loan; the stock is pledged to the company as security, and the optionee has ten years in which to repay the company's loan and get clear title to the stock.

In the other ten plans the employee must wait a specified period of time before he can use his payroll deduction savings to buy any of the stock under option. In nine plans this waiting period is one year after the date the option is granted; in the Grand Union plan, the length of the waiting period is left to the discretion of the board of directors.<sup>1</sup>

As a rule, once the initial waiting period expires, plan participants are permitted to exercise their options in whole or in part during the remaining life of the plan. However, four companies spell out the timing of purchases. In the Minnesota Mining plan, options may be exercised only during the month of July each year; the exercise is limited to two separate months each year in the Diamond Alkali plan (May and November) and the Mead plan (January and July). Grand Union not only limits the purchase of stock to certain dates but also penalizes the buyer

(Continued on page 377)

<sup>1</sup> The Chain Belt plan, with a three-year life and a one-year waiting period, stipulates that "each participant by his acceptance of his option shall agree to remain in the employ of the company, and to render his services for a period of two years from the date of the option." It further stipulates that the shares subject to option are to be purchased "for investment and not with any present indication to resell the same." This "for investment only" clause is also found in the Starrett plan.

# What's Happening to the Christmas Bonus

**A survey of the same firms that reported giving a Christmas bonus in 1953 shows a sizable minority have dropped this practice. Reasons why are given**

**C**HRISTMAS is associated with many customs embedded deep in western culture—Christmas trees and festivities, carols, greetings and gifts. Peace and good will pervade the atmosphere; and not even the rigors of profit making are entirely immune. Hence, the company Christmas bonus.

For almost a decade THE CONFERENCE BOARD has surveyed companies that traditionally give a year-end or Christmas bonus. Without exception these surveys attest to the seemingly perpetual survival of the bonus once a company starts the practice. But in the last two or three years some notable exceptions have been seen. In a significant number of cases companies that had given Christmas bonuses for many years stated they no longer did so, tradition to the contrary. This would seem to indicate that perhaps the Christmas or year-end bonus is, in some quarters at least, losing a little ground.

What does this mean? Is the bonus giving way to other forms of compensation? Is the avalanche of bigger and better fringe packages having an effect upon it?

To answer these questions, this year the Board queried the same companies that in 1953 reported they gave Christmas or year-end bonuses. Companies with less than 250 employees were excluded, since in smaller companies a closer personal tie between employer and employees might tend to create a bias in favor of the bonus. Except for this, the companies selected represent a cross section of size and industry classifications. Firms were asked: (1) if their bonus has continued without substantial change since 1953; (2) if a material change has occurred in the bonus since 1953, what was the change and why was it made; and (3) if the bonus has been discontinued, what was the reason for discontinuance? A mailing list of 159 firms netted 128 returns, of which 125 were usable.

Over 75% of the respondents (ninety-seven companies) still continue to give a year-end or Christmas bonus, although some of these have made changes in the formula or the coverage over the five-year period. But twenty-eight companies (22%) have scrapped the bonus entirely. These figures affirm the magnetic hold the bonus has in companies where it has become an established practice. But despite this tenacity, another side of the story is that a significant propor-

tion of companies, for one reason or another, has dropped it entirely.

## DISCONTINUED BONUS PLANS

Company executives advance four primary reasons why their policy of giving a Christmas bonus has been reversed during the past five years. These are: (1) employees' attitude toward the bonus; (2) economic conditions as reflected in low corporate earnings and profits; (3) increased labor costs; and (4) company mergers.

### Employee Attitudes

Two contrasting employee attitudes are reported by respondents, and both tend to dissipate the intended morale value sought by the company in giving a bonus. In some instances employees come to view the bonus as part of their earned income and as such they expect to receive it automatically. For instance, employees who have gotten the bonus for several years develop this attitude despite the company's efforts to remind them that the bonus is paid only at management's discretion and is neither a promise nor a commitment.

On the other hand, some companies report that their employees do not consider the bonus as part of their regular wage or salary. Thus, when area or industry wage rates go up or when the company paying a year-end bonus has lower rates than those prevailing, employees still press for the prevailing rate. The fact that they have regularly received a year-end bonus fails to placate their desire for a higher wage or salary. The following excerpts from returns illustrate this point:

- "About three or four years ago the company discontinued the bonus practice because in discussing rates with employees, the company found that they completely ignored the fact that they had been receiving year-end bonuses regularly. In eliminating the bonus a compromise was made by increasing base rates so that they were in line with area and industry practices."

- "In 1954 the company put all employees on a five-day week, at which time employees were given a pay increase to compensate for the bonus which was eliminated. This was done because employees

did not consider the bonus as part of their earnings and were interested only in the amount of take-home pay received each week."

- "The bonus amount was converted into piece-rate and hourly rate schedules. This was done because employees did not consider the bonus as part of earnings. After the conversion, employees then started a Christmas savings club so that they would receive a check at the end of the year out of their own savings."

In a slightly different vein, companies whose profits warranted only a small bonus—from \$5 to \$30—report that the size of the bonus was so small it had virtually no impact or meaning for employees. These companies report they would have been expected to increase the amount of the bonus had they continued it. The bonus was dropped, and, as an alternative, in some cases turkeys and hams were substituted.

#### Economic Reasons

A third of the companies that discontinued the bonus attribute their action to economic reasons. Most of these point out that earnings simply did not justify continuing the Christmas or year-end bonus. More specifically, some companies indicate that the bonus became too costly as the length of service of individual employees increased.

Two companies in this group added the equivalent bonus amount—2 cents an hour—to wage and salary schedules. Typical of the answers given for transferring the bonus amount to a regular payroll basis is the following reply: "We feel that union rates are getting so high we cannot continue to give bonuses that our competitors do not give."

#### Labor Costs

Increased labor costs are also frequently cited as a reason for discontinuing the bonus. The cost of rate increases required to maintain an adequate wage and salary level convinced some companies that continuation of year-end bonuses was highly impractical. Some firms report they have had tough problems trying to develop wage and salary structures which are closely related to job content, competence and ability. Their experience dictates that any attempt to tie compensation to the holiday spirit existing at Christmas time is destined to be unsatisfactory if not disastrous. In the words of one company executive: "A bonus is tacit admission that the wage and salary administration program does not adequately reflect or recognize job performance."

#### Other Reasons

Since 1953, several companies have been acquired by or merged with other companies, at which time the year-end bonus practice was eliminated. When one of the companies was acquired by another, its employees

became participants in the profit-sharing plan of the parent company. Under the profit-sharing plan, employees receive at least twice the former bonus. But at other merged companies, employees were not so fortunate; no bonus substitution was made available to them.

Increased employee benefits are mentioned by three companies as a reason for doing away with the bonus. In one of these, greater hospitalization and surgical coverage was provided in exchange for the former Christmas bonus, while in the other two discontinuance was due partly to liberalized benefits and partly to economic conditions. Profit-sharing plans took the place of former bonuses in two companies, and in another, the bonus was negotiated out of the union contract.

### ARGUMENTS IN FAVOR OF BONUSES

Despite dissenting voices, the vast majority of companies that gave a bonus in 1953 are still pledged to the same policy. That more than three out of four of the companies continue the bonus is ample evidence of its capacity for survival. Basically, the year-end or Christmas bonus is designed to express the company's appreciation to its employees for their contribution to company operations during the year. Advocates of the bonus contend that it is as much a matter of sound personnel administration as it is an expression of the Yuletide spirit. Bonuses, they say, are not intended to take the place of a fair wage and salary scale. Rather, the bonus is aimed at providing concrete evidence to employees that the company is aware that occasionally it must call on them for more work for the same money.

### CHANGES IN THE PLANS?

For the most part, companies have made no changes in their bonus plans since 1953. Seventy-eight (62%) of the 125 reporting firms say that no substantial bonus change has taken place, although the amount of the bonus may fluctuate with fluctuating profits.

However, nineteen companies (16%) have changed their bonus plans substantially. Seven of these stopped giving a bonus to one group of employees while continuing it for other groups. For instance, at three companies, bonuses are no longer given to salaried employees. Instead, salary adjustments are made, and in one case, an incentive-compensation plan for salaried employees was instituted. Again, three companies eliminated hourly employees from the bonus plan while continuing the plan for salaried people. In each case, the bonus amount for hourly workers was absorbed in the wage structure as a result of union-management negotiation. In re-evaluating its bonus plan the seventh company eliminated top-management people and reduced the bonus for all other employees by about a third.

Of the remaining companies that changed their plans, six give more liberal bonuses now than they gave in 1953, while six others give smaller amounts. A company that in 1953 gave both a year-end and a Christmas bonus has now eliminated the year-end bonus while continuing the Christmas bonus.

### COMPANY COMPARISONS

Since the sample of companies discontinuing the bonus is relatively small, no definitive comparison can be drawn between the type of company that continues the bonus and the type that has done away with it. It appears, however, that large companies (over 1,000 employees) are more inclined to eliminate the bonus than smaller ones. For example, eighteen (70%) of the twenty-eight companies that dropped

bonus plans have at least 1,000 employees. On the other hand, only forty-nine (50%) of the ninety-seven companies that still have bonus plans employ 1,000 or more. But the largest company in the survey—over 200,000 employees—has a bonus plan which has continued without undergoing any substantial changes in the past five years.

Industry representation is as diversified in the discontinued group as in the bonus group. Durable and nondurable manufacturing is fairly evenly distributed between the two categories. Just nineteen nonmanufacturing firms are included in the study. Fifteen of these continue the bonus while the other four now abstain.

N. BEATRICE WORTHY

*Division of Personnel Administration*

## Changing the Company Organization Chart

Minor difficulties can sometimes be more annoying than major problems. One of these "midget worries" that has bothered management development and organization planning specialists is: How does one keep an organization chart up to date economically when changes are taking place very rapidly?

Accuracy requires that changes of men or organizational units be reflected on the charts as soon as such changes are made. Clarity suggests that the changes should not be merely penciled in on the existing charts. And economy demands that the chart room not be used to make endless drawings of revised organization charts. A minor problem—but very annoying to the man who is responsible for the charts.

And when a company is decentralizing, expanding, or shifting its management team around quickly, the problem can be more than a minor headache.

Here is a method by which at least a few companies keep their official charts up to the minute without excessive expenditure of time or money.

The charts are prepared on large, stiff, plastic sheets. One company uses a plastic-surfaced wall in a conference room. The sheets are sometimes lightly cross-ruled as an aid in charting. These surfaces form the background of the charts.

Pressure-sensitive sheets, tapes, and labels are the other materials needed. Organizational units, position titles, and the names of job holders are typed on the labels. Ordinary office machines may be used; the expensive time of draftsmen is not required. The labels are then pressed onto their proper places on the background sheet. Tapes are used to connect the labels to show the lines of authority and delegation. And—presto—an organization chart.

When changes are needed, only one or two labels or

tapes have to be removed or shifted. Replacement labels can be quickly and cheaply made.

If desired, more information can be recorded for fast visual interpretation through the use of color codes. For instance, one company groups the subunits of major departments by using brown plastic sheets on the background and putting the individual units and managers' labels on these brown sheets. Thus, major departments show up as brown boxes, with the internal organization of these departments indicated by white boxes within the brown.

For even more sophistication, colored dots, checks, and other symbols can be used to show performance ratings, promotion potential, or other evaluations of either the men or the organization.

The use of such colored symbols is merely an application of the visual coding systems often found on manning charts and replacement tables. While the addition of performance ratings usually requires that the chart be handled confidentially, security problems are outweighed by the advantages of having a large chart which several men can see simultaneously while conferring about possible personnel shifts.

As an example of this use of a large, flexible chart, one company reported that it is able to "try out" promotions before they are made. The appropriate labels are shifted around on the chart to show the alignments of men that would result from the promotions under consideration. Weaknesses in the resulting organization are sometimes uncovered before any concrete moves have been made, and plans can be initiated to bolster the weak spots through training or by other means. The company feels that the flexibility of its wall chart has made it easier for it to anticipate the effects of promotions—W. S. W.

# Industry Considers Mental Health

**Should a company try to help the mentally disturbed employee? And if so, what kind of assistance or program would be most effective in this complex area?**

**L**AST YEAR the direct cost of mental illness to American business was \$3 billion. Including indirect costs, it was more than four times that amount. These are appalling figures—especially when viewed in terms of the human misery and suffering they represent. The tragedy is compounded by our knowledge that the rising toll could be reversed if there was better understanding of mental illness and its treatment.”

This statement was not made by a psychiatrist, nor by an irresponsible sentimentalist, nor by a popular lecturer seeking the headlines. It was made last month at a meeting in New England of 200 executives from eighty companies and trade associations by the respected president of a nationally known company.<sup>1</sup> This executive is of the opinion that the facts of mental illness should be better known by business leaders. And he also is of the opinion that business should do something about the facts once they are known. He stated: “We feel that business should accept an increasing share of responsibility for helping to solve or to ameliorate some of the problems inherent in an industrial society.” Not all in attendance agreed with him, but it was apparent that many did.

## The Objectives of Business

Whether one agrees that business has a responsibility to attempt to improve the mental health of employees probably depends to a large extent on how one defines the goals of an enterprise. During recent years executives around the country have been asking searching questions about the nature and purposes of their businesses. Why, they are asking themselves, are we in business? What is the real purpose or objective of our company?

The obvious and traditional answer to the first question is that a company is in business to make money. Some would rephrase this. They would prefer to say, “A company is in business to produce a product or to provide a service.” They would argue that only counterfeiters get together and decide, “Let’s make some money.” Businessmen, they say, get together and organize their resources to start some particular business which they hope will appeal to buyers and investors and which will, in time, prove

profitable to themselves. There can be little quarrel with either the long or short answer. Obviously, sooner or later a company, if it fails to make money, must close its doors.

But is a company’s *sole* objective to make money? If a company president who holds to this position is asked if his company will contribute to the building fund of a nearby college, he might be expected to reply that he could not justify spending the stockholders’ money for such a purpose. Or for medical research. Or for a community swimming pool. Or for any other purpose, however worthy, that is unrelated to the profit-making function of his business.

Yet there is wide agreement today that a business has other objectives and responsibilities than the single one of financial return to the owners or stockholders. Many executives speak of their responsibilities to their suppliers, to their customers, to the public, and to their employees, as well as to their stockholders.<sup>1</sup> Here, attention will be focused on the company’s responsibility to its employees.

What is this responsibility? How far does it go?

When a company offers employment to a job applicant, it agrees to pay him a certain wage or salary. At one time this was about the only responsibility it did assume.

But with the passing of the years other responsibilities were added, some voluntarily, some through collective bargaining, and some by the enactment of legislation. Examples are safer and more attractive working conditions, time off with pay, programs of training and development, and various insurance, retirement, and fringe benefits.

Some of these things were done because management believed they should be done—because they were “right.” Examples might be providing proper lighting, temperature control, pleasant grounds and buildings, dismissal compensation, music, and rest periods.

Other things were done primarily for self-interest. Many companies invested money in safety training in full confidence that their accident rates would drop

<sup>1</sup> One example in the area of public relations may be cited. During the last two decades company contributions to various educational and philanthropic enterprises have grown by leaps and bounds. Now American business is pouring more than one-half billion dollars a year into “worthy causes.” Companies wish to be thought of as “good citizens of their communities.”

<sup>1</sup> Charles J. Zimmerman, president of the Connecticut Mutual Life Insurance Company.

and that the resulting savings would pay the costs of the training several times over. Such programs, of course, often result in benefits to employees as well as to management. Yet some companies assert that the primary reason for these activities is their humanitarian interest in their employees.

A company's interest in a safety program may grow out of a desire to save money or to promote the welfare of its employees or out of a combination of the two desires. In some instances management might deny any relationship between its safety program and its desire to meet its responsibilities to the employees.

### Company Interest in Employee Health

The field of employee health offers an unusually interesting, though involved, area for a consideration

of company responsibilities. This is particularly true if mental health is thought of as part and parcel of a general health discussion.

Students of the subject are of the opinion that it is unrealistic today to talk health in terms of physical conditions only. The close interdependence of physical health and mental health has been well established.

Industry has availed itself of the services of medical technicians, nurses, and doctors for many years. But the field of industrial medicine has in general been a limited one, restricted for the most part to preliminary diagnostic examinations and to first-aid care. Company doctors rarely have carried on treatment programs with employees. If an employee requires any extended attention, he is referred to his own private physician. And this position is in accord with estab-

### The Neurotic Executive

Lower-level employees are not the only ones subject to mental illness, of course. Executives, too, may suffer from various neurotic ailments. But, obviously, the high-salaried employee is not barred from psychiatric assistance because of the cost of such treatment. However, cost is not the whole story. It is a well-documented fact that many mentally ill people fail to recognize they need medical help and resist the idea of treatment.

What should a company do if one of its high-level employees shows unmistakable signs of mental illness? Does the company have a responsibility to step in?

Some outstanding doctors and psychologists working in this area have made the following observations:

1. There are no rules to follow; no easy solutions. No one can say just what a company should do. Each case must be decided on its own merits.

2. Society is tolerant of some neurotics, not so tolerant of others. A company may play ball with a heavy drinker or with someone who suffers a nervous breakdown. It may bear down hard on those who violate accepted sex codes or who flout authority.

3. The more able the executive is, the more tolerant the company is apt to be of his behavior.

4. Many companies have neurotic executives, but these men compensate well enough and often are considered able performers and good citizens on the whole.

5. An individual may not recognize that he is neurotic. He may see no need to change his ways. He may consider that others are out of step, not himself. He may not welcome suggestions of medical diagnosis and treatment.

6. Firing the neurotic executive may seem the easy way out, but it might not be the best way for either the company or the executive.

7. A lot depends upon the nature of the case—there are all degrees of mental illness. If there is nothing overt, the situation may be known to only a

few people, and it may be an easy case to handle.

8. If the individual is in his forties or fifties, if the pattern of behavior is well established, if he does not actively want help—then little can be done. If the situation is otherwise, then the prognosis is more favorable. In some instances a supportive type of relationship can be established (with a psychologist or psychiatrist) which will enable the individual to carry on his regular work in an acceptable fashion. The underlying condition may or may not be affected.

In the light of these observations, a company might consider the following approaches in dealing with such a problem.

*Ignore the situation.* Do nothing. Hope that nothing untoward occurs.

*Tolerate the situation.* This is similar to the first but slightly more positive. It expresses a "live and let live" attitude. The company may even counsel other executives that "it takes all kinds to make up this world."

(The first or second approach might work if the condition is not too serious—if the individual's behavior does not interfere with his business affairs.)

*Offer to help.* The goal here is to enlist the individual's cooperation for his own good and for the good of the organization. With help, he may be "cured" or he may at least be helped to keep his condition under reasonable control.

*Issue a warning.* The person may be told that his conduct cannot be tolerated; it must be corrected. This approach sometimes is effective with excessive drinkers and others.

*Discharge the person.* This, of course, is a last resort if all else fails.

(The last two approaches assume that the situation is serious, that damage is being done to the company, that other persons are being affected, and so on.)

lished medical practices, as well as company policy.

But while companies have employed doctors to check the physical conditions of employees, only a very few have ventured into the less well-understood area of mental health. And none known to THE CONFERENCE BOARD has felt that it was within its province to offer a full-blown program of psychiatric treatment for employees. Yet this is what was proposed at the meeting of business executives referred to earlier in the article. The idea, described as a "bombshell" by the press the following day, was greeted with enthusiasm by a number of those attending the meeting.

Since the concept of company-provided psychiatric treatment for employees flies so directly in the face of tradition, it would be easy to reject it forthwith. Because of this, it might be well to mention some of the thinking in back of the proposal.

A few statistics were quoted at the New England meeting. It was pointed out that there are as many beds in American hospitals for mental patients as for those suffering all other illnesses combined. Mental institutions are overcrowded and many patients in need of hospital care cannot be admitted.

Reference was made to the estimated costs of mental illness to American business in 1958, viz., \$3 billion (direct costs) and \$12 billion (direct and indirect costs). One speaker concluded: "It is clear that the ultimate cost of neglecting the problem of mental illness will be far greater than the cost of solving it."

#### Examples of Mental Health Problems

Employees with various mental and emotional problems, some actually ill and some on the borderline, were described. These included alcoholic workers, pre-senile workers, workers with less-than-adequate capacities for the jobs they were doing, workers with high accident rates, workers chronically late for work or absent, workers that were suspicious of their associates, that resisted authority, that were overly sensitive, and so on. In all, it was stated, such workers account for 20% of the payroll of the average company today. These workers are not only problems for themselves but they make problems for others. Day in and day out they affect the morale and productivity of work groups.

Research studies were cited showing that 70% or more of all workers who are discharged lose their jobs for lack of successful adjustment to the job rather than for lack of competence to do the job. It was concluded that emotional difficulties of one kind or another were the cause of most of these discharges.

But it is one thing to recognize an existing situation for what it is and quite another thing to accept responsibility for it and to agree to a course of action. The New England group seemed more interested in the diagnosis that was made than in the follow-through steps that were suggested.

#### What a Company Medical Plan May Cover

What does a company medical plan today provide in the way of services to employees? To be accredited by the Occupational Health Institute, the following requirements must be met:

Companies must (1) have a stated medical policy; (2) perform preplacement medical examinations; (3) perform periodic physical examinations on all employees exposed to industrial hazards; (4) have available facilities for voluntary periodic physical examinations for all employees; (5) maintain a competent consulting staff; (6) give attention to sanitation, safety precautions and industrial hygiene; (7) have the chief medical officer or advisor report to some responsible member of management who is conscious of and familiar with managerial interpretation of medical policy; (8) maintain a well-equipped dispensary for emergency care as well as for preplacement and periodic examinations; and (9) have medical and nursing personnel who are graduates of accepted schools of learning and who are in good standing and properly licensed to practice.<sup>1</sup>

<sup>1</sup> See the *Management Record*, July, 1954, p. 268.

It should be pointed out that American business already has taken some first steps in the field of mental health. A few companies have full-time psychiatrists on their staffs and others engage the services of psychiatrists on occasion. Several hundred psychologists are working in business firms, but only a minority devote major time to counseling employees. In several dozen companies the services of chaplains are available to the employees.

The growth of major medical insurance also deserves mention here. At the beginning of 1959, roughly 6.5 million employees of American companies, plus some 10 million dependents, had this protection from catastrophic illnesses. Psychiatric difficulties are covered by a majority of the companies writing this form of insurance. At \$20 or even \$15 an hour, psychiatric treatment is obviously out of reach for the average employee. He can't finance such treatment. But the help provided by major medical insurance (generally it pays from 50% to 80% of the cost after a small deductible is met) brings psychiatric care within the reach of those with modest incomes.

#### Resources Are Available

If companies wish to add to these first steps, there are resources at hand.<sup>1</sup> Trained specialists in mental health work can be employed. There are approxi-

<sup>1</sup> The \$3 billion now allegedly being lost annually by business due to mental illness would buy 150 million hours of psychiatric time at \$20 per hour. If there are 12 million employees in need of psychiatric attention (20% of a labor force of 60 million) the \$3 billion would entitle each of them to one hour of psychiatric time per month throughout the year. Twelve hours for diagnosis and treatment is not a long period, if the condition is at all serious.

mately 30,000 psychiatrists and psychologists in the United States, and the services of some of them certainly could be enlisted on a part-time or full-time basis to augment the work now being done in companies by a handful of their colleagues.

Many business organizations, of course, feel they are making a contribution to mental health by training their supervisors in good human relations practices. They argue that supervisors can be alerted to early danger signals of psychological difficulties, and that they can learn to take care of small problems that develop in the lives of their workers. Many of these problems can be solved by a frank talk, by arranging a job transfer, by referral to a community agency, or in other ways.<sup>1</sup>

Some people hold that preventive measures should be made part of the responsibility of specialized personnel, and that such measures could be included in supervisory training programs. Perhaps this is the most likely approach of the three. If a business can be set up and operated in accordance with good mental hygiene principles, it is pointed out, there will be fewer "problem" employees and less need for psychiatric help. In such a setup there would be clearly stated policies for all to follow, a sound organizational structure, and well-selected and well-trained supervisors at all levels. This company would be known as "a good place to work."

Of course, these are principles that practically all organizations at the very least give lip service to. In contrast, the suggestion that a company assume some responsibility for helping mentally ill or disturbed employees is controversial to say the least. Not surprisingly, therefore, a wide range of opinion was expressed by those attending the New England meeting as to the desirability of trying to help employees with emotional and mental difficulties. Some of the comments that were heard after the formal part of the meeting had been concluded were:

- We're not in that business.
- We are concerned but we don't have much of a problem in our organization. We select our employees very carefully.
- Aren't there community agencies to look after such people?
- We train our supervisors in good human relations principles and practices.
- We do not believe in interfering in the personal lives of our employees.
- We certainly would like to do our part, especially for our group of long-service employees.
- We would not take the initiative, but would help any employee who came to us requesting help.

<sup>1</sup> But it is important to recognize that line supervisors are not the proper persons to handle involved psychological problems. An employee who is ill, either physically or mentally, should of course be referred promptly to a doctor.

- We are interested but do we know enough at this stage to offer help to the mentally ill?

To summarize, the group seemed genuinely concerned about the problems that had been presented but doubtful as to what should be done about them.

The president of one company argued that American business was responsible for creating some of the tensions of modern life. His company has an active mental hygiene program. He is of the opinion that many companies, either alone or in conjunction with other firms in their area, should employ psychiatrists to work individually with employees in need of help. This was the bombshell that made first-page news in the local press the following morning. But it remains to be seen if it was a bombshell that will stimulate many companies to similar action.

STEPHEN HABBE

*Division of Personnel Administration*

## Management Bookshelf

**Professional Practices in Management Consulting**—This small volume takes the reader behind the scenes and shows him how management consultants conduct their businesses. A committee of consultants from five large firms was commissioned "to make a study of the methods used by professional management consultants in preparing for, conducting, and following up on a consulting engagement which ensure, insofar as is humanly possible, high quality work and client satisfaction and which distinguish the qualified professional consultant from the less qualified amateur." The present book is the result of the committee's work.

The company executive who wishes to engage outside help in a particular area is told: "By knowing what to look for and expect from the qualified management consulting firms, he can recognize more easily the caliber of the firm best able to render him sound and competent service." *By Association of Consulting Management Engineers, Inc., New York, New York, 1959, 96 pp., \$2.75.*

**The Fifth Mental Measurements Yearbook**—This is the eighth volume of test reviews published by Dr. Buros, three having appeared before the present series was begun. In all, they cover a quarter century of testing experience, the period during which testing became well established in industry and elsewhere.

The fifth yearbook contains basic information on and critical reviews of hundreds of tests and assessment techniques by well-known educators and psychologists. The seven-year period, 1952 through 1958, is covered. (Older tests are reviewed in earlier yearbooks.)

There is no other source of information on psychological testing comparable to that provided by Buros' yearbook series. *Edited by Oscar K. Buros, The Gryphon Press, Highland Park, New Jersey, 1959, 1322 pp., \$22.50.*

# Arbitrator Analyzes "Work Practices" Provision of U. S. Steel Labor Contract

ON OCTOBER 1 the board of arbitration set up under the most recent labor contract of the United States Steel Corporation<sup>1</sup> rendered a decision on four grievances which has aroused special interest. All four cases (combined together into one arbitration process by agreement of the parties) required an interpretation of Section 2-B of the contract.

This is the so-called "work practices" or "conditions of employment" provision which has been a major subject of controversy in the currently stalemated negotiations between the company and the United Steelworkers.<sup>2</sup>

In reaching its decision, the board of arbitration, speaking through its chairman, Sylvester Garrett, made a detailed analysis of the history of this issue since 1945. Also, the board reached certain conclusions that can be expected to have a bearing on the decisions of any arbitration boards which succeed it, in the event that some of the principles contained in Section 2-B are carried over into future contracts.

Each of the four grievances centered upon a reduction in crew sizes. The union had objected to the manpower cuts on the ground that keeping the jobs filled was a "working condition" which the company could not change without violating Section 2-B of the master agreement.

In general, the arbitration board favored the union's interpretation of that provision. Of the four particular grievance claims filed by the union, the board denied one, granted one, and returned the other two for "full development of essential evidence looking toward settlement" in the light of the findings set forth in the opinion.

## HISTORY OF SECTION 2-B

The dispute over work practices arose even before the advent of Section 2-B in 1947.

The labor contract negotiated in 1945 gave the arbitration board authority to arbitrate "conditions

of employment . . . which are or may hereafter be in effect." But it denied the board authority "to add to, detract from or alter in any way" the provisions of the agreement.<sup>1</sup> What this language meant was considered by the board in a grievance case that came up almost at the outset.

The arbitration board decided unanimously that it had authority under this language to enforce *established local practices*, even though these were not specified in local agreements. The significance of such local practices was increased in other early cases, according to Mr. Garrett, since both the company and the union would on occasion rely upon a reputed local practice or understanding as relevant or controlling in a particular arbitration. Mr. Garrett said:

"The parties' heavy reliance upon local agreements and practices over the years suggests that the nature of their collective bargaining relationship requires reasonable flexibility in dealing with essentially local problems: it is not easy to deal adequately and in detail with all matters in a single master agreement."

## The 1947 Agreement

The 1945 contract language with respect to the board's authority over such local working "conditions as may hereafter be in effect at the plants of the company" was in substance carried forward into the 1947 contract in Section 7-B.

That contract also contained a new provision, Section 2-B, which read as follows:

"Local working conditions—The term 'local working conditions' as used herein means specific practices or customs which reflect detailed application of the subject matter within the scope of wages, hours of work, or other conditions of employment and includes local agreements, written or oral, on such matters. It is recognized that it is impracticable to set forth in this agreement all of these working conditions, which are of a local nature only, or to state specifically in this agreement which of these matters should be changed or eliminated. The following provisions provide general principles and procedures which explain the status of these matters and furnish necessary guideposts for the parties hereto and the board.

<sup>1</sup> The contract itself terminated on June 30 of this year.

<sup>2</sup> The company (together with the other firms that are bargaining as one group) has asked that basic changes in Section 2-B be made this year. As of the time that the Taft-Hartley emergency fact-finding board made its report to the President on the present stalemate, the company's proposal had been wholly rejected by the United Steelworkers.

<sup>3</sup> This is in Section 9-E-5 of the 1945 contract, defining the authority of the arbitration board. Work practices issues arose in connection with this language in the 1945-1947 contract period.

"1. It is recognized that an employee does not have the right to have a local working condition established, in any given situation or plant where such condition has not existed, during the term of this agreement or to have an existing local working condition changed or eliminated, except to the extent necessary to require the application of a specific provision of this agreement.

"2. In no case shall local working conditions be effective to deprive any employee of rights under this agreement. Should any employee believe that a local working condition is depriving him of the benefits of this agreement, he shall have recourse to the grievance procedure and arbitration, if necessary, to require that the local working condition be changed or eliminated to provide the benefits established by this agreement.

"3. Should there be any local working conditions in effect which provide benefits that are in excess of or in addition to the benefits established by this agreement, they shall remain in effect for the term of this agreement, except as they are changed or eliminated by mutual agreement or in accordance with paragraph 4 below.

"4. The company shall have the right to change or eliminate any local working condition if, as the result of action taken by management under Section 3—Management, the basis for the existence of the local working condition is changed or eliminated, thereby making it unnecessary to continue such local working condition; provided, however, that when such a change or elimination is made by the company any affected employee shall have recourse to the grievance procedure and arbitration, if necessary, to have the company justify its action.

"5. No local working condition shall hereafter be established or agreed to which changes or modifies any of the provisions of this agreement. In the event such a local working condition is established or agreed to, it shall not be enforceable to the extent that it is inconsistent with or goes beyond the provisions of this agreement, except as it is approved by an international officer of the union and the industrial relations executive of the company."

### The Later Agreements

In the negotiations for a new contract which took place in 1951 and 1952, Section 2-B was a principal item of discussion.

The company sought to have it eliminated entirely. According to Mr. Garrett, "the union saw in the company's 1952 demand to delete Section 2-B a desire to have unrestricted authority to reduce crews, combine jobs, and institute speed ups." Eventually, the Wage Stabilization Board took up the issue (in an attempt to resolve the 1952 stalemate between the company and union) and recommended "that there be no change in the existing contractual provisions with respect to local working conditions, management rights, and job structure."

A letter of understanding adopted by the union and the company on August 22, 1952 made it clear that the issue was still unresolved and that the parties could maintain their respective positions for the duration of the 1952 contract. And, as a matter of fact, Section 2-B survived the contract negotiations of

both 1954 and 1956, and the controversy over it between the company and union has continued until the present.

### RELATIONSHIP BETWEEN SECTIONS 2-B AND 7-B

Since both provisions, Section 2-B and Section 7-B, were included in the 1947 contract, it is apparent, observed Mr. Garrett in this year's arbitration decision, "that Section 2-B could not have been intended as a complete substitute for the old provision" of 1945.

Thus, said the arbitrator, the parties, in adopting Section 2-B, had clearly recognized their inability to deal fully and conclusively with all problems of local working conditions. In addition, Mr. Garrett considered significant the actual statement in the contract that the provisions of Section 2-B were designed to provide *general principles and procedures* explaining the status of working conditions and furnishing the necessary *guideposts* for dealing with problems.

### Company and Union Viewpoints

This conclusion was a setback for the company. It had argued that Section 2-B was a complete concept of how established local working conditions should be handled, and that the express restrictions on them found in Section 2-B should be applied to the cases under arbitration.

With specific reference to the fifth point in that section, the company wanted maximum emphasis given to the second sentence, which said that any local working condition established or agreed to hereafter "shall not be enforceable to the extent that it is inconsistent with or goes beyond the provisions" of the master agreement.

The arbitrator reported the company's position thus:

"Any local working condition governing crew size not only would go beyond the provisions of the agreement but would also conflict with the express provisions of Section 3 which recognize management's inherent and reserved right to direct the working forces—including the right to relieve employees from duty for lack of work or for other legitimate reasons."

The union, on the other hand, stressed that the real meaning of point number five was to be found in the first sentence: "No local working condition shall hereafter be established or agreed to which changes or modifies any of the provisions of this agreement."

The union's view of Section 2-B-5, according to Mr. Garrett, was as follows:

"Any local working condition arising after April 22, 1947 is enforceable unless it changes or modifies the provisions of the basic agreement. The second sentence of 2-B-5 never applies unless such a local working condition (changing or modifying) comes into being. The purpose of the second sentence is procedural—it specifies what is to be done when a local working condition changes or modi-

fies some provision of the basic agreement. Thus, any local working condition which does not actually change or modify the terms of the basic agreement is enforceable."

Thus, the major difference between the company and the union, according to the arbitrator's analysis, consisted of what was meant by the phrase "changes or modifies any of the provisions of this agreement."

#### BOARD'S INTERPRETATION OF SECTION 2-B-5

The essence of the decision of the board of arbitration was stated in these words:

"As now written, Section 2-B-5 cannot reasonably be interpreted to strike down all local working conditions affecting crew size or spell time which otherwise might limit the exercise of management's authority as set forth in Section 3."

In substance, the arbitration board accepted the viewpoint expressed by the union in interpreting Section 2-B-5 and found that the guiding principle to be applied in the four grievance cases was contained in the first sentence and not in the second one, which declared unenforceable a local working condition that "goes beyond" the provisions of the master agreement.

The board's opinion questioned whether the parties could live under a literal interpretation of the words "goes beyond" for two principal reasons.

One was that even a grievance settlement or a written understanding intended to implement the master agreement may be said to go beyond the master agreement. The other was that "such an unnatural interpretation" would have disturbing consequences in a huge multiplant bargaining unit "where some degree of local autonomy long has been recognized as desirable."

Also, the board considered significant the meaning of the words "changes or modifies" in the first sentence, saying that it was inconceivable that a local working condition will arise out of custom or practice to change or modify the master agreement. And seldom, it was said, would local representatives "brashly undertake by specific agreement, literally and directly, to change or modify any provision of the basic agreement. What is more likely to happen is that local agreements or other working conditions may conflict with, or ignore, the fundamental policies set forth in various provisions of the basic agreement."

The board observed that perhaps the negotiators, in drafting Section 2-B in the light of practical experience under the 1942 and 1945 agreements, had in mind possible changes and modifications flowing from the local application of policies and procedures different from those in the master agreement.

#### Management's Authority over Crew Sizes

Finally, the arbitration board decided that it could not rule in favor of management's position that local

working conditions limiting management's authority over crew sizes were unenforceable because they were inconsistent with Section 3.

Although that section (entitled "Management") recognized the right of the company to direct the working forces, including "the right to relieve employees from duty because of lack of work or for other legitimate reasons," it contained an express limitation of its own:

"All of the management rights mentioned in Section 3 are subject to the limitation that, in their exercise, the company 'shall observe the provisions of the agreement.' There is no apparent basis for deeming Section 2-B, for this purpose, to be inferior to other provisions of the agreement in potentially limiting the exercise of management authority as contemplated in Section 3."

To this, the opinion added two observations. One was that grievance cases had long ago recognized that management's authority to determine crew size might be limited by established local conditions of employment. The other observation was that "since March 13, 1945, each basic agreement has recognized that local working conditions, which limit the exercise of management authority as now recited in Section 3, may be enforced."

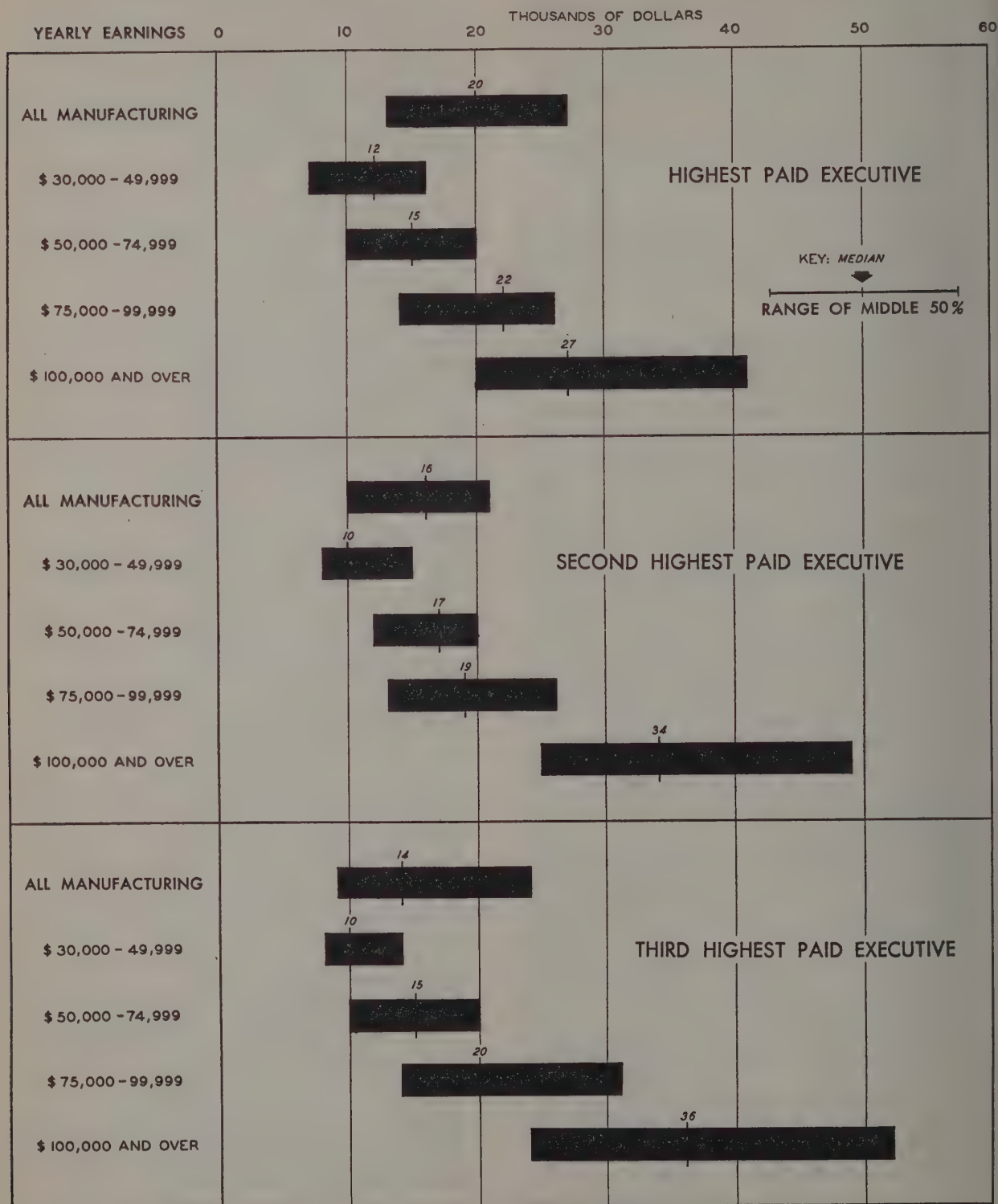
The arbitration board emphasized, however, that where no actual agreement governing crew size or spell time is shown to exist, there must be clear evidence that a controlling local working condition has been established through recognized custom and practice. To expand on this point, the board quoted from an earlier arbitration case as follows:

"Even more important is that 2-B covers only *specific practices or customs* which reflect detailed application of the subject matter in question. A custom or practice is not something which arises merely because a given course of conduct has been pursued by management or the employees on one or more occasions. A custom or a practice is a usage evolved by men as a normal reaction to a recurring type situation. It must be shown to be the *accepted* course of conduct characteristically repeated in response to the given set of underlying circumstances. This is not to say that the course of conduct must be accepted in the sense of both parties having agreed to it, but rather that it must be accepted in the sense of being regarded by the men involved as the *normal* and *proper* response to the underlying circumstances presented.

"The circumstances under which shop customs arise, and the period of time which may pass before they take clear and specific form, may vary greatly from one situation to another. The background of such a practice, and illustrations of its use, where appropriate, should be presented to the board by the party relying upon it. This is not to say that the entire evolution of the custom must be shown, but rather that the party relying on the practice must present sufficiently clear evidence to justify the board in making a finding in the matter."

ANTHONY P. ALFINO  
Division of Personnel Administration

**Chart 1. Estimated Pensions of Three Highest-Paid Executives in Manufacturing in 1957, by Executive Earnings**



# More on Top Executive Pensions

Charts and text illustrate the relationship between the size of a pension and the salary level of an executive and the size of pensions and company size

**A**FTER PUBLISHING the pension estimates for the three highest-paid officers in companies from five major industry groups for 1949 and 1957,<sup>1</sup> THE CONFERENCE BOARD received numerous requests for more detailed information about the 1957 estimates. Two questions specifically asked were: (1) what is the estimated pension for executives at different salary levels? And (2) what is the average estimated pension in companies of different sizes?

These two questions are obviously related. As a general rule, the size of a pension increases as salary level increases. At the same time, larger companies tend to pay larger salaries.<sup>2</sup> Therefore, pensions in larger companies generally would be larger than those in smaller companies. By and large, this reasoning is borne out by the data shown on the accompanying charts. However, when the estimated pension is considered as a percentage of the executive's total compensation, the differences in the pension paid from one salary level to another or from one company to another, regardless of size, tend to disappear.

These conclusions are drawn from information about the three highest-paid executives in more than 450 manufacturing companies.<sup>3</sup>

## Pensions and Salary Level

Chart 1 illustrates the fact that the pension increases as the salary level increases for each of the three highest-paid executives. The pension of an executive earning \$100,000 or more a year is anywhere from 2¼ to 3½ times larger than that of an executive earning \$30,000 to \$50,000 per year.

At the same time, the median pension is nearly the same for all three executives in any particular salary class, except for executives earning \$100,000 or more. In this case the pension of the second- and third-highest-paid executives is noticeably larger than that of the highest-paid executive. This may be due to the fact that the highest-paid executives earning over \$100,000 have, as a group, an average salary appreciably higher than the other two executives. Thus

many have dollar ceilings imposed on their pensions.<sup>1</sup>

Despite the differences in the dollar amount of the pension of executives at various salary levels, the percentage of total compensation that the pension represents is roughly the same at all salary levels in 1957, except in the case of top executives who earn \$100,000 or more and are subject to a dollar ceiling.

Total Annual Compensation, 1957	Median Pension as a Per Cent of 1957 Current Compensation		
	Highest Paid	Second Highest	Third Highest
\$30,000-49,999 .....	28%	25%	27%
50,000-74,999 .....	26	28	27
75,000-99,999 .....	25	25	27
100,000 and over .....	20	27	33
All manufacturing .....	23	25	28

## Pensions and Company Size

Similarly, the per cent of total compensation that the executive pension estimate represents is about the same whatever the company size, as shown below:

Company Sales Volume	Median Pension as Per Cent of 1957 Current Compensation		
	Highest Paid	Second Highest	Third Highest
Under \$50 million .....	22%	23%	26%
50 million-99 million .....	23	25	27
100 million-199 million .....	23	26	27
200 million-299 million .....	26	30	31
300 million-499 million .....	25	30	31
500 million and over .....	23	28	32
All manufacturing .....	23	26	27

However, Chart 2 shows quite clearly that the dollar amount of the pension of each of the three highest-paid executives increases as the size of the company increases. For all three executives, the average pension paid by the largest companies (those with \$500 million or more in sales) is roughly three times greater than the estimated pension in the smallest companies (those with sales under \$50 million).

Whatever the size of the company, however, the third-highest-paid executive will receive a smaller pension than his two superiors and the highest-paid executive will receive a somewhat larger pension than the second highest paid.

HARLAND FOX

Division of Personnel Administration

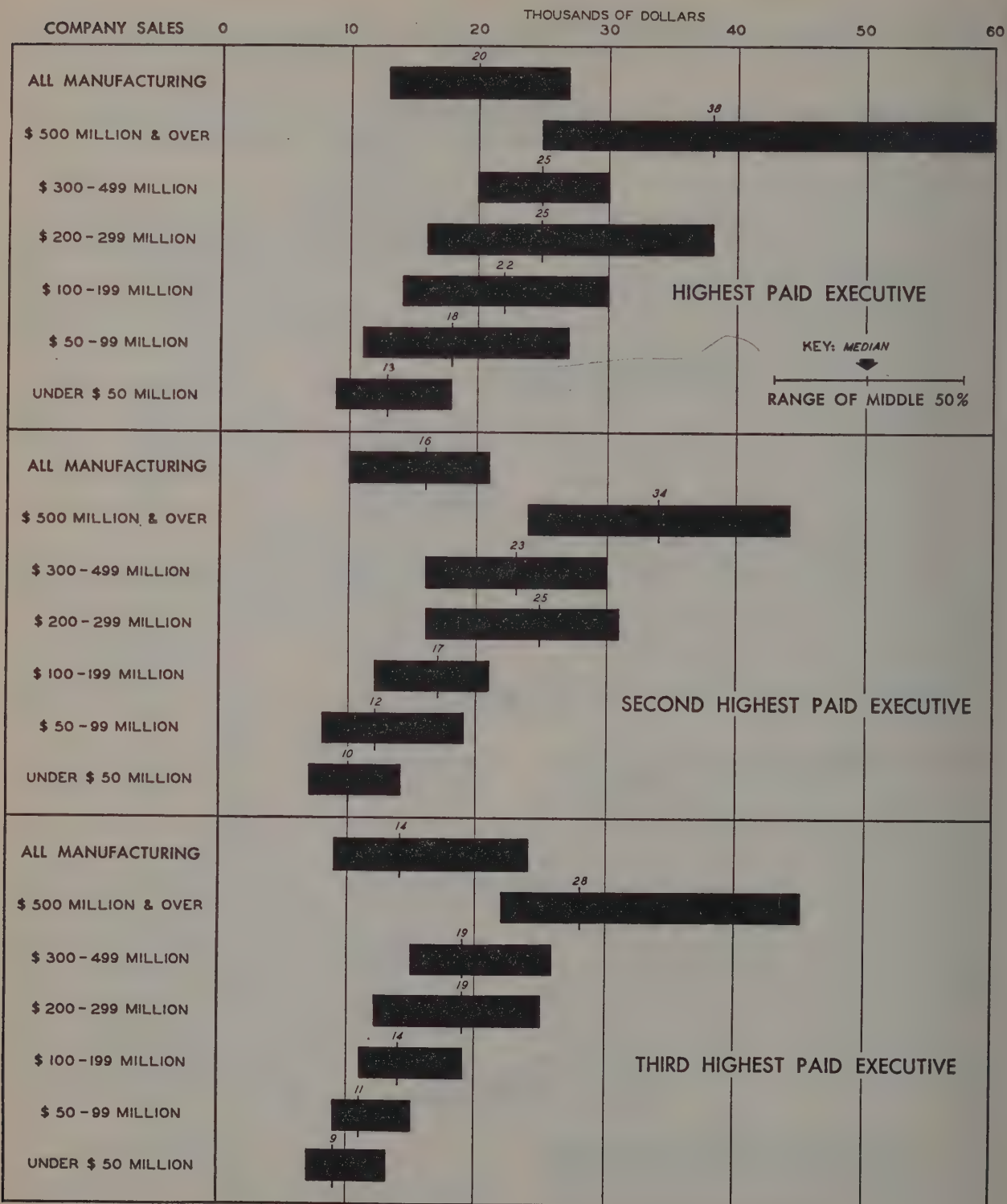
<sup>1</sup> "The Trend of Top Executive Pension Benefits," *Management Record*, July-August, 1959, p. 222.

<sup>2</sup> See "Compensation of Top Executives in 1957," *Studies in Personnel Policy*, No. 173, 1959, p. 10.

<sup>3</sup> The number of companies in other industry groups studied was too small to permit analysis.

<sup>1</sup> However, data are not available to adequately explain why the highest-paid officer should receive a smaller pension than his two subordinates.

**Chart 2. Estimated Pensions of Three Highest-Paid Executives in Manufacturing in 1957, by Company Sales**



# Significant Labor Statistics

Item	Unit	1959							Year Ago	Percentage Change	
		Sept.	Aug.	July	June	May	April	March		Latest Month over Previous Month	Latest Month over Year Ago
Consumer Price Indexes (BLS)											
All Items.....	1947-1949 = 100	125.2	124.8	124.9	124.5	124.0	123.9	123.7	123.7	+0.3	+1.2
Food.....	1947-1949 = 100	118.7	118.3	119.4	118.9	117.7	117.6	117.7	120.3	+0.3	-1.3
Housing.....	1947-1949 = 100	129.7	129.3	129.0	128.9	128.8	128.7	128.7	127.9	+0.3	+1.4
Apparel.....	1947-1949 = 100	109.0	108.0	107.5	107.3	107.3	107.0	107.0	107.1	+0.9	+1.8
Transportation.....	1947-1949 = 100	146.4	146.7	146.3	145.9	145.4	145.3	144.9	141.3	-0.2	+3.6
Medical Care.....	1947-1949 = 100	152.2	151.4	151.0	150.6	150.2	149.6	149.2	146.1	+0.5	+4.2
Personal Care.....	1947-1949 = 100	132.1	131.7	131.3	131.1	130.7	130.0	129.7	128.7	+0.3	+2.6
Reading and Recreation.....	1947-1949 = 100	119.6	119.1	119.1	118.1	117.8	117.7	117.3	116.6	+0.4	+2.6
Other Goods and Services.....	1947-1949 = 100	131.5	131.1	130.8	129.2	128.4	128.2	127.3	127.1	+0.3	+3.5
Employment Status (Census)											
Civilian labor force.....	thousands	69,577	70,667	71,338	71,324	69,405	68,639	68,189	68,740	-1.5	+1.2
Employed.....	thousands	66,347	67,241	67,594	67,342	66,016	65,015	63,828	64,629	-1.3	+2.7
Agriculture.....	thousands	6,242	6,357	6,825	7,231	6,408	5,848	5,203	6,191	-1.8	+0.8
Nonagricultural industries.....	thousands	60,105	60,884	60,769	60,111	59,608	59,167	58,625	58,438	-1.3	+2.9
Unemployed.....	thousands	3,230	3,426	3,744	3,982	3,389	3,627	4,362	4,111	-5.7	-21.4
Wage Earners (BLS)											
Employees in nonagr'l establishments.....	thousands	p 52,493	r 52,054	r 52,343	52,580	51,982	51,414	50,878	51,237	+0.8	+2.5
Manufacturing.....	thousands	p 16,321	r 16,172	r 16,410	16,455	16,187	16,029	15,969	15,755	+0.9	+3.6
Mining.....	thousands	p 607	r 633	r 710	713	701	693	688	711	-4.1	-14.6
Construction.....	thousands	p 3,024	r 3,101	r 3,035	2,986	2,834	2,656	2,417	2,927	-2.2	+3.3
Transportation and public utilities.....	thousands	p 3,907	r 3,922	r 3,949	3,944	3,914	3,881	3,865	3,886	-0.4	+0.5
Trade.....	thousands	p 11,480	r 11,353	r 11,324	11,352	11,234	11,131	11,083	11,151	+1.1	+3.0
Finance.....	thousands	p 2,450	r 2,475	r 2,475	2,442	2,413	2,404	2,386	2,392	-0.9	+2.4
Service.....	thousands	p 6,597	r 6,589	r 6,603	6,623	6,583	6,508	6,377	6,472	+0.1	+1.9
Government.....	thousands	p 8,107	r 7,812	r 7,837	8,065	8,116	8,113	8,093	7,943	+3.8	+2.1
Production and related workers in mfg. employment											
All manufacturing.....	thousands	p 12,317	r 12,181	r 12,433	12,524	12,299	12,167	12,117	11,940	+1.1	+3.2
Durable.....	thousands	p 6,816	r 6,696	r 7,161	7,248	7,139	7,022	6,937	6,579	+1.8	+3.6
Nondurable.....	thousands	p 5,501	r 5,485	r 5,272	5,276	5,160	5,145	5,180	5,361	+0.3	+2.6
Average weekly hours											
All manufacturing.....	number	p 40.4	40.5	40.3	40.7	40.5	40.3	40.2	39.9	-0.3	+1.3
Durable.....	number	p 40.7	40.9	40.6	41.4	41.1	40.9	40.8	40.2	-0.5	+1.2
Nondurable.....	number	p 39.9	40.0	39.8	39.7	39.6	39.5	39.5	39.5	-0.2	+1.0
Average hourly earnings											
All manufacturing.....	dollars	p 2.21	2.19	2.23	2.24	2.23	2.23	2.22	2.14	+0.9	+3.3
Durable.....	dollars	p 2.36	2.35	2.39	2.40	2.39	2.39	2.38	2.30	+0.4	+2.6
Nondurable.....	dollars	p 2.02	2.00	2.01	2.00	2.00	2.00	1.99	1.95	+1.0	+3.6
Average weekly earnings											
All manufacturing.....	dollars	p 89.28	88.70	89.87	91.17	90.32	89.87	89.24	85.39	+0.7	+4.6
Durable.....	dollars	p 96.05	96.12	97.03	99.36	98.23	97.75	97.10	92.46	-0.1	+3.9
Nondurable.....	dollars	p 80.60	80.00	80.00	79.40	79.20	79.00	78.61	77.03	+0.8	+4.6
Straight time hourly earnings (estimated)											
All manufacturing.....	dollars	p 2.14	2.12	2.16	2.17	2.16	2.16	2.16	2.08	+0.9	+2.9
Durable.....	dollars	p 2.28	2.27	2.31	2.31	2.30	2.31	2.30	2.23	+0.4	+2.2
Nondurable.....	dollars	p 1.97	1.95	1.96	1.95	1.95	1.95	1.94	1.91	+1.0	+3.1
Turnover Rates in Manufacturing (BLS)											
Separations.....	per 100 employees	p 4.2	r 3.7	3.3	2.8	2.9	3.0	2.8	3.3	+13.5	+27.3
Quits.....	per 100 employees	p 2.2	1.8	1.3	1.3	1.3	1.1	1.0	1.5	+22.2	+46.7
Layoffs.....	per 100 employees	p 1.4	r 1.4	1.4	1.0	1.1	1.3	1.3	1.4	0	0
Accessions.....	per 100 employees	p 3.7	r 3.9	3.3	4.4	3.6	3.5	3.6	3.8	-5.1	-2.6

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## PERSONNEL PRACTICES

### Christmas Carols

Joy is the keynote of the Yuletide season. It was the note struck by the angels on the hills of Bethlehem when they announced the birth of Christ. And it is reechoed today when men of good will gather together to spread that joy anew by the singing of Christmas carols.

At the Grumman Aircraft Engineering Corporation in Bethpage, New York, the singing of Christmas carols will be a family affair this year. The Grumman chorus is being revived, and an invitation to join has been extended not only to Grumman personnel but to their wives, husbands and even teen-age children as well. Rehearsals, under the direction of a music professor from Queens College, are being held evenings to permit all members of the family to participate.

Present plans call for the chorus to give a few benefit performances for local educational and social organizations. But its primary objective is to prepare to spread Yuletide joy by singing Christmas carols at the Grumman plant and at various hospitals and military installations in the neighborhood.

### Christmas Trees

It has become a tradition in many factories and offices throughout America to herald the Christmas season by decorating trees with bright lights and flashing ornaments. Certainly these decorated trees can add to the joy of the Yuletide. Yet, if they are not handled with care, this joy can quickly turn to sorrow. Each year, appalling damage is done to people and property by Christmas trees catching fire.

To guard against this danger, the Caterpillar Tractor Co. of Peoria, Illinois has drawn up precautionary rules. These rules are included in a "Christmas Trees and Parties" letter that is sent to all administrative and department heads in all the company's plants and general offices. The portion dealing with Christmas trees follows:

"Each year, many employees wish to observe the Christmas season by decorating trees in their departments. . . . The company wishes to cooperate with employees in these expressions of the Christmas spirit and does not intend to dampen their enthusiasm by a long list of restrictions. It is the purpose of this letter, therefore, merely to define

the safe and prudent limits within which the season may be observed.

"The company, with department head approval, will purchase the trees and will be responsible for having them fireproofed. If a department wishes to purchase its own tree, it must be fireproofed just as company-purchased trees are.

"Ornaments, lights and stands should be furnished by the employees. Inflammable decorations of cotton or paper must not be used. The approval of plant engineering, or another qualified group, must be secured before any lighting apparatus is attached to any trees.

"Trees must be dismantled by the day after the New Year's holiday."

### A Doll for Another Daddy's Little Girl

Christmas belongs, in a special way, to children. And, each year, the 3M Club of the Minnesota Mining & Manufacturing Company in St. Paul, Minnesota sponsors a dress-a-doll contest that keeps many little girls in the area believing in Santa Claus.

What makes this contest especially unusual is that it is divided into two divisions—one for women, another for men. Male members of the club, in collaboration with wives, mothers and daughters, as well as female members, spend many an hour during the fall months plying a needle to dress a doll that is destined to brighten the Christmas of some little girl. For, as soon as the contest ends, all the dressed dolls (together with suitable toys for little boys) are turned over to local charitable groups for distribution to the children who need them most.

### Christmas Spirits

A friendly drink at Christmas time may have its place; but that place, many companies feel, is not the place where a man earns his living.

In the pre-Christmas issue of some GE publications, for example, employees are reminded that plant regulations forbid them to report for work under the influence of alcoholic beverages, or to bring in or consume such beverages in any work area at any time. The warning is added, too, that these regulations will be strictly enforced and that violators will be subject to disciplinary action.

"Abuses," it is explained, "have made these restrictions necessary. The obvious dangers of drinking alcoholic beverages in a factory area are paralleled by the danger of broken glass, falls, horseplay, and other regrettable acts in office areas. In addition, regard for employees' safety includes recognition of the dangers on streets and highways. Statistics show that more than half the drivers involved in fatal holiday accidents had been drinking.

"What's more, in addition to all these safety factors, as a matter of good conduct and respect for those with whom we work, drinking just does not have a place in industry—during the holiday season or at any other time!"

### **Rangers Ride with Santa Claus**

In 1953, First Federal Savings in Arizona discontinued its staff Christmas party and stopped giving gifts to local businessmen. Since that time, the money saved has been used to distribute free holiday food coupons to needy families in the area.

An unusual feature of the program gives it special interest. It is carried out in the name of—and, to a large extent, by—the firm's junior savers, the "First Federal Rangers." These Rangers (who hold all "military" ranks up to five-star general, in proportion to the size of their savings accounts) are asked to report to the Ranger Lady at First Federal by letter the name and address of a neighboring family that needs help. These letters are screened to avoid duplication by a panel of prominent people who decide the allocation of available funds. In other cities where First Federal has offices, local welfare agencies help in the selection.

Since the start of the plan, over 525 families have been helped through Ranger food gifts for the needy.

### **Off for All of Christmas Week**

After their school days end, few people ever again enjoy the privilege of getting off the entire week between Christmas and New Year's. But numbered among these few are the employees of McCormick & Company, Inc. in Baltimore, Maryland. That company's personnel policies and procedures manual provides:

"Christmas Holidays: Each year, prior to December 1, the senior board of directors determines, in consideration of the company's financial condition and other pertinent factors, whether Christmas holidays in addition to Christmas Day are to be granted. Unless compelling factors make it not feasible to do so, the work days between Christmas Day and New Year's Day are declared company holidays and all employees except temporary employees receive straight-time pay for the holiday period."

When the extra holidays are granted, the business does not close down for Christmas week. The company, on a planned basis, provides sufficient inventories of packaged goods and raw materials to carry it over the period. To receive, ship, and service the orders that come in during the holiday week, skeleton crews stay on the job and are granted either additional straight-time pay for the hours worked or a compensating amount of time off later on.

It has been the experience of the McCormick company that the employees, in anticipation of the long Yuletide holiday, exert extra effort to assure that everything is shipshape and that all contingencies are provided for before the holiday period begins.

### **Guessing What Santa Will Bring**

Last year, employees of the Bell & Howell Company in Chicago, Illinois not only received a cash bonus from the company at Christmas time, but they were also given a chance to win a prize by guessing in advance how much the bonus was going to be.

All employees on the payroll on December 1 qualified for the Christmas bonus, which formed part of the company's profit-sharing plan. Enough money was taken out of the year's profit sharing to pay the Christmas bonus in cash on a seniority basis (ranging from a minimum of \$10 for short-service employees to a maximum of 200% of weekly base salary for employees with the company for twenty-five years or more). The balance was then divided among individual accounts in the profit-sharing retirement fund.

Early in December, employees were asked to guess the total amount of profit-sharing money that would be paid out in the cash Christmas bonus. The one whose guess was closest to the actual total was awarded a camera and projector. The next four runners-up each got a camera. So did three names drawn at random from all the other entries.

### **Christmas Parties**

The joy of the Yuletide season can, at times, get out of hand. And nowhere is this more likely to happen than at the company Christmas party. The proverbial picture of the employee in his cups telling off the boss is one of the milder unpleasantnesses that can occur. There are countless instances on record of Christmas parties being the cause of irreparable damage to costly machines and, far worse, of permanent injury and even death to individual employees.

For this reason, some firms prohibit the holding of Christmas parties on company property. One company goes so far as to spell out the prohibition in a policy statement that makes it clear that the company wants no part of any Christmas party unless it is one for children only. The statement reads:

**"PURPOSE:** To establish the company policy on Christmas parties.

**"1. Employee Christmas Parties**

- (a) Employee Christmas parties in the offices or plants of our corporation are prohibited.
- (b) The company will not in any way sponsor employee Christmas parties on or off company property.

**"2. Other Christmas Parties—**This policy is not intended to discourage any actions which are judged to be sound investments in employee or community good will, such as the sponsorship of a Christmas party for children of employees, support of a Christmas party at a local children's home or hospital, or any activities of a like nature.

**"3. Comment—**The intent of the above statements should be clear. This policy should not be construed as an attempt to prevent or discourage groups of employees from joining together after working hours on their own initiative to celebrate the holiday."

### Christmas Presents

For years the employees of Nationwide Insurance in Columbus, Ohio received a box of candy as a present each Christmas. But, back in 1953, the company came to the realization that the employees' appreciation of the gift was being dulled by the fact that they knew what was coming. It decided to introduce an element of surprise by giving a different present each Christmas. In recent years, the gifts have included a camera, a travel alarm clock, and a picnic set.

Buying a Christmas present for some 3,000 employees, the company has found, is not an easy matter. The present has to appeal to both sexes and all age groups; it has to be easy to mail, since it is sent to employees who have retired or entered the armed forces; and it cannot be perishable, because it is sometimes shipped long distances. Still, the company feels that the satisfied reaction of the employees to the surprise arrangement makes the extra effort worthwhile.

### Christmas Cards

Members of the ten-year club at the B.F. Goodrich Company in Akron, Ohio have given a new and deeper meaning to the expression of Yuletide greetings. Believing that the money employees spent each year exchanging Christmas cards could be put to a more useful purpose, they started Operation Big Switch.

During Thanksgiving week each year, the club members distribute more than 10,000 OBS envelopes to Goodrich employees. The employees are asked not to send Christmas cards to each other but, instead, to figure out what doing so would cost and then put this amount in the envelope as a contribution to OBS. The

money thus collected is used to provide baskets of food for deserving families at Christmas time.

### Can He Keep the Scotch?

During the Yuletide season, many employees receive gifts from outside companies. At times, the ribbons with which these gifts are tied are not the only strings attached. The sender may be trying to "buy business."

How do most employers handle this problem? Do they allow their employees to accept Christmas gifts from other companies? In a recent Conference Board survey,<sup>1</sup> 43% of the 291 manufacturing firms participating answered affirmatively. Another 16% replied that they discourage but do not prohibit the acceptance of such gifts, the general feeling here being that "it does not seem practical to have an ironclad rule which may not be enforceable."

For the most part, there is no specific dollar limit placed on the value of the gifts that may be accepted. However, employees are generally expected to decline gifts "whose value is so great as to make it apparent that the donor is trying to influence the recipient." Another popular guide is the "one-day rule." Under this rule, a gift is acceptable "if it can be eaten, drunk, smoked, or used up in a twenty-four-hour period."

### Yuletide Greetings

How many ways are there to say "Merry Christmas"? This is a question that faces company presidents each year as they sit down to the difficult task of preparing a Yuletide message for their employees. Many of them answer it by speaking of the religious significance of Christmas; others report on the company's accomplishments during the year that is ending and its plans for the year that lies ahead; still others discuss world conditions and the prospects for continued peace and prosperity.

Sometimes, the president's message is sent as a special Christmas letter to each employee at his home; other times, it appears in the company publication. On occasion, too, the message is long; or, again, it may be expressed in just a few words. Here, for example, is a president's message that tells its story in four short sentences:

"Merry Christmas to all! The spirit of Christmas is one of joy and of happiness, and of kindly remembrance, and good will. All of these I extend to each of you and your families at this Holiday Season.

"May you enjoy ever greater happiness and satisfactions in the New Year to come."

J. ROGER O'MEARA

*Division of Personnel Administration*

<sup>1</sup>"The Business of Christmas Giving," *The Business Record*, November, 1959, p. 503.

## Steelworkers' Defense Fund Grows

**T**HE 135 union presidents who make up the AFL-CIO general board unanimously voted to appeal to their respective members for contributions of one hour's pay per month for the duration of the steel strike. If each union member responds to the appeal, the yield could possibly amount to over \$15 million, announces *The Machinist*, IAM weekly.

By the close of the AFL-CIO convention, the Industrial Union Department, the Auto Workers, and the Clothing Workers had each placed \$1 million in the hands of the Steelworkers. In addition, states the *AFL-CIO News*, three other unions, the Electrical Workers, the Communications Workers, and the Textile Workers, had each donated \$100,000. Gifts of \$25,000 also came from the Utility Workers, Transport Workers, and each of four railway unions.

In all, the total amount already received by the United Steelworkers is over \$3.5 million. But the aid has not only come from American unions. Histadrut, the Israeli labor federation, has also sent a \$10,000 gift, declared the *AFL-CIO News*.

### More Mergers of State and Local Central Bodies Urged

Stressing the role that state and local central bodies play in "mobilizing support for the AFL-CIO legislative programs," the Committee on State and Local Central Bodies urged the AFL-CIO at its recent convention to "assure" merger of the remaining unconsolidated state and local central bodies "no later than December 31, 1959," reports the *AFL-CIO News*.

Already, the union paper continues, forty-eight states and 436 local central bodies have been consolidated. However, because of the "considerable number of reactionary statutes enacted in many states in the past two years," the committee demanded that the separate AFL and CIO state federations in New Jersey and Pennsylvania and 107 local central bodies now also merge.

Equally serious in the committee's eyes is that "more than one-third of the local unions are not yet affiliated" with any local central body. The purpose of the local central bodies, reports the committee, is "to implement" labor's total program on the state and local levels. Thus "lack of participation by local unions impedes the progress that can and should be made."

Following this report, a resolution was immediately proposed to compel the affiliation of local unions to

these bodies. President George Meany left the chair to argue successfully against this resolution on the grounds that the AFL-CIO "was created by the national unions" and thus he would not like to see the federation change "to one centrally controlled from Washington."

### One Million Workers Organized by AFL-CIO Since 1955

More than a million new members have been brought into the AFL-CIO since its merger in 1955, despite a "well-organized, coordinated, massive campaign against the union movement," announced the AFL-CIO executive council.

Today, the executive council continued, the "great challenge" to organization comes from:

- White-collar workers, who now for the "first time in history outnumber blue-collar workers."
- The South, which is now undergoing a tremendous economic development, "with the value of capital increasing by more than \$1 million a day."

To meet these challenges, the executive board warns the labor movement to "make preparations for the necessary monies and man power." The council noted with satisfaction, however, that, since the federation's last convention in 1957, AFL-CIO unions have maintained their record of winning "60%" of the NLRB representation elections, reports the *AFL-CIO News*.

### Per Capita of Federal Unions Is Raised

A 50-cent increase in per capita payments made by local unions directly chartered by the federation was overwhelmingly approved at the third biennial AFL-CIO convention held recently in San Francisco.

In hiking the per capita ceiling of these federal labor unions to \$1.50 a month, George Meany, president of the AFL-CIO, commented that "the federal labor unions sometimes stand in the path of the progress of the larger unions." Mr. Meany complained, reports *The International Chemical Worker*, official ICWU monthly, that these unions "often leave the burden of negotiations to internationals in their jurisdictions, but then, when the question of affiliation with an international arises, they boast of their lower dues structure."

In justifying the hike in per capita payments, President Meany argued, says the *AFL-CIO News*, that these unions get "every possible service" from the federation in terms of "strike assistance, collective bargaining, accounting, research, time study, and job evaluation."

#### Preparing for a Union Convention

Just what degree of preparation goes into the making of an international union's convention? An article appearing in this month's labor press attempts to answer this question.

Under the direction of Emil Mazey, the Auto Workers' secretary-treasurer, a staff of UAW members "burned the midnight oil" preparing the scene for the seventeenth convention of this union of over a million members. Among the major tasks faced by the committee, the union monthly, *Eastern Solidarity*, announces, were the following:

- One hundred typewriters had to be rented for the working press and for other convention business.
- Four duplicating machines were secured for press releases and committee reports.
- Over 200,000 sheets of paper had to be on hand for all purposes.
- Press phone arrangements and phones for the executive offices in the hotel had to be acquired.
- Convention kits for the delegates were shipped from the Midwest.
- Office furniture and equipment also had to be leased for the one-week period.

Finally, besides making hotel reservations for its many delegates, the union also had to make arrangements for over 200 distinguished foreign guests scheduled to visit the convention at Atlantic City.

#### AFL-CIO President Gets Higher Pay

In addition to unanimously re-electing George Meany to his third two-year term as president of the merged labor movement, the AFL-CIO gave him an added vote of confidence by raising his salary by \$10,000 to \$45,000 a year.

Also re-elected (and also the recipient of a \$10,000 yearly increase), announces the *AFL-CIO News*, was federation Secretary-Treasurer William F. Schnitzler. His annual salary is now \$43,000. The twenty-seven vice-presidents of the federation were re-elected by acclamation.

#### Federal Aid for Apprentice Training Program Continued

In his keynote speech to the AFL-CIO Metal Trades Department convention, President James A. Brownlow announced that labor-backed apprentice

training programs would not be denied federal financial aid as earlier feared, reports the *AFL-CIO News*.

The program had been originally placed in jeopardy by an amendment to the 1958 National Defense Education Act which "called for an end to financing all programs, except those designed to train an unspecified group of technicians." Now the union weekly announces that, after over a year of discussion with the Department of Health, Education and Welfare, assurance of "continued federal aid" to apprentice training programs has been "finally given."

In other department business both Mr. Brownlow and Secretary-Treasurer B. A. Gritta were re-elected, this time to four-year terms. Their salaries were also increased by \$5,000 to \$25,000 a year.

#### Maritime Trades Department Strengthened

In a special convention, occurring less than a month later than its regular scheduled one, the twenty-union Maritime Trades Department unanimously approved merger with the Maritime Committee, composed of four former CIO unions. With this consolidation, *The Marine Fireman* observes, "all licensed and non-licensed American seamen are now brought into one department."

Under the agreement, signed by Joseph Curran, president of the more than 40,000-member Maritime Committee, and Paul Hall, president of the 200,000-member MTD, Mr. Curran will retain leadership of the newly consolidated department.

Within this department, a new seafarers' section has been added, which, emphasizes the *AFL-CIO News*, will be supervised by Mr. Hall and Mr. Curran, acting as cochairmen. They in turn will appoint a director to administer the section's activities. This section will be financed by a special per capita levy, apart from the one regularly paid to the department. In addition, any other unions that want to form their crafts into a section are empowered to do so by this compact.

Immediate aims of the merged body will be restoration of a strong merchant marine and a renewed fight against the "continuing transfer of American flagships to the registries of other nations and the loss of jobs to seamen of other countries," the *AFL-CIO News* states.

#### Fire Brings Greater Union-Management Cooperation

When fire destroyed Kleinschmidt Laboratories' Deerfield, Illinois plant, its 600 workers, faced with the prospect of "indefinite layoff," pitched in to work without pay cleaning up the debris, reports *The Machinist*, journal of the International Association of Machinists. Many employees even offered to "take drill presses and other machine tools to their homes and recondition them at no cost to the company."

So impressed was the company by their loyalty that it promised to reimburse its workers in full for time lost because "we have the best people in the world working on our team."

As a consequence of the workers' efforts, three weeks after the fire, the union newspaper states, production is gradually returning to normal with one hundred employees already back at work making teleprinters and other communications equipment.

JOHN J. MCKEW

*Division of Personnel Administration*

## Stock Options

*(Continued from page 357)*

unless he purchases a specified block of stock. Each block consists of from 20% to 100% of the shares covered by the option. Purchases of all or part of the shares in each block may be made only on February 1 and August 1 during the years specified on the face of each stock warrant. To the extent that shares in a block are not purchased in the years specified, the option to such shares becomes void and they go back into the plan for re-optioning.

Except for the Grand Union plan, the length of time during which a participant may exercise all or part of his option coincides with the life of the plan. Seven of the plans were given a three-year life. Minnesota Mining's current plan specifies options for four years. The Grand Union and Pfizer<sup>1</sup> plans are scheduled to last for five years, but the life of the option is nine years in Grand Union. And in the Starrett plan, where the optioned stock was immediately issued in the name of participants and then pledged to the company as security, the optionees have ten years in which to repay the company's loan and get clear title to their stock.

### OPTIONS AT TERMINATION

A unique problem arises when a Starrett plan participant terminates his employment. The optioned stock has already been issued in his name, even though he has not yet paid the full purchase price. To provide a solution, the plan empowers the stock option committee to (1) rescind the sale and refund the amount that the terminating participant had saved, (2) deliver to such participant or his heirs the shares paid for to date, with the company retaining the balance, or (3) repurchase the stock at its current market value, paying the terminnee or his heirs any balance due after crediting the repurchase price against the sum of the installments remaining unpaid under the original purchase agreement.

<sup>1</sup> In the Pfizer plan, options can be granted for five years, but are exercisable for specified periods up to five years beyond the date of the grants.

Another departure from usual procedure is found in the Diamond Alkali plan; here a participant leaving the company for any reason other than death must exercise his option, to the extent he is entitled to do so at the time, within seven days prior to his leaving the company. In the other nine plans, a participant terminating his employment for any reason other than death is allowed a fixed period after leaving the company to exercise his option to the extent of entitlement on termination. This period is fixed at thirty days in the Grand Union,<sup>1</sup> Minnesota Mining, and Pfizer plans; it is three months in the other six plans.

When employment is terminated by the death of a participant, his estate is usually allowed a longer period in which to take action on the option. This period runs for one year in the Carpenter, Chain Belt, and Royal McBee plans;<sup>2</sup> it is nine months in the Grand Union plan; six months in the Diamond Alkali, Mead, and Pfizer plans; and three months in the Minnesota Mining plan. In the Acme Steel and Inland Steel plans, the estate may exercise the option of a decedent who dies any time before the plan expires.

### EXTENT OF PARTICIPATION

Participation of eligible employees in these stock option plans can be measured in any one of three ways: (1) the per cent of eligible employees who decide to participate in the plan; (2) the per cent of participants who actually purchase stock with their payroll deductions or, if the plan is not ended, the per cent who do not drop out; and (3) the per cent of optioned stock that is purchased by participants. These participation data for each company are shown in detail in the next section of this article. The figures below present only the general picture. The per cent of eligible employees who actually participated in eleven of the plans was as follows:<sup>3</sup>

90%	.....1 plan
75	.....1 plan
58	.....1 plan
55	.....1 plan
47	.....2 plans
40	.....2 plans
33	.....1 plan
28	.....1 plan
24	.....1 plan.

Four of the eleven companies have one or more plans that have already come to an end; three of these

<sup>1</sup> An exception is added in the Grand Union plan for participants who retire on pension; they are given three months.

<sup>2</sup> The plans include two Inland Steel plans and three Minnesota Mining plans. No data were available for Chain Belt, Grand Union, and Starrett.

<sup>3</sup> Expiration of the plan usually stops the grace period if it has not yet run its course; but when this happens under the Carpenter and Royal McBee plans, the estate of the deceased may exercise his option for a period after the plan expires. This period runs for four months under the Royal McBee plan, for close to six months (180 days) under the Carpenter plan.

companies (with a total of five plans) reported the per cent of plan participants who actually bought stock as follows: 72%; 70%; 57%; 55%; 33%.

Nine of the companies have plans still in operation; seven of them (with a total of eight plans) provided the following estimates of the per cent of initial participants who still are in the plan: 100%; 93%; 91%; 90%; 83%; 75%; 66%; 35%.

Estimates of the per cent of total shares available for option that were actually purchased were given for five plans that have already ended: 100%; 95%; 84%; 76%; 60%.

### THE ELEVEN PLANS—IN PARTICULAR

So much for the broad picture. It may be helpful now to bring each plan into focus as an individual entity and examine how its provisions have worked in practice.

#### Acme Steel Company

The Acme Steel plan follows the pattern most frequently found in stock option plans that extend below the executive level. It took effect in 1957 and will expire in 1960. Originally a total of 6,161 employees, all with at least two years' service, were eligible to option the number of shares that 30% of their 1956 gross earnings would buy at the option price of \$27.25 a share (90% of market). They had thirty days to retain their options by authorizing regular payroll deductions toward the purchase price. Fifty-eight per cent (3,558) of them (2,238 hourly employees; 1,179 salaried and sales personnel; and 141 from the management ranks) did so before the deadline. Since then the one-year waiting period has elapsed, and thirty-two of the participants have already purchased 2% of the 200,000 shares in the plan. The plan, moreover, has several months to run and 35% (1,248) of those who signed up at the start remain active participants who can still use their cumulative savings (which earn interest at 3% per annum) to buy the stock they hold under option. To date, less than 1% of the original participants have reduced the amount of their payroll deductions.

#### The Carpenter Steel Company

The Carpenter Steel plan is tailored along the same general pattern as the Acme Steel plan. It took effect in 1957 and will expire in 1960. Originally, a total of 2,730 of all company employees with two years' service were eligible to option the number of shares that 30% of their gross earnings for 1955 or 1956 would buy at the option price of \$44.25 a share (95% of market). They had thirty days to retain their options by authorizing regular payroll deductions toward the purchase price; and 40% (1,020) of them (620 hourly employees and 400 salaried or sales personnel) did so before the deadline. Since then the one-year waiting period has elapsed, and 69% (707) of the participants

have already purchased more than 43% of the 40,000 shares in the plan. The plan, moreover, has about a year to run and about 66% (670) of those who signed up at the start remain active participants who can still use their cumulative savings (with interest at 3% per annum) to buy the stock they hold under option. To date, about 2% of the original participants have reduced the amount of their payroll deductions. As the result of a 100% stock distribution to shareholders on October 30, 1959, the option price has been reduced to \$22.13 per share and the number of shares remaining under option has been doubled.

#### Chain Belt Company

The Chain Belt plan got under way in 1956 and expired this year. Originally, a total of 1,051 of the company's executive, administrative, sales and clerical employees who had not participated in an earlier "key employee" plan were granted options to purchase the number of shares that 25% of their gross earnings would buy at the option price of \$50.26 a share (85% of market).

There was no provision for periodic payroll deductions in the plan, and the company made no arrangements for financing the options on an individual basis. Of the original optionees, 767 were salaried clerical, sales or administrative employees; and the remaining 284 were supervisory or management personnel. The option period ran from March 1, 1957 to February 28, 1959. During that time, 57% (598) of the original 1,051 participants exercised their options—511 of them in full, the other eighty-seven in part. In all, 60% (17,521) of the 29,251 shares granted in options were exercised by the participants. These share figures, incidentally, do not reflect the adjustments necessitated by a three for two split in the company stock during February, 1959; options still open at that time were increased by 50%, and the option price was decreased by one-third.

#### Diamond Alkali Company

A distinctive feature of the Diamond Alkali plan is that participants are given the right to apply each year's Christmas gift from the company (2½% of annual base compensation) toward the purchase of optioned stock. The plan started in 1957 and will expire in 1960. Originally a total of 5,984 of all company employees were eligible to option the number of shares that the lesser of \$3,600<sup>1</sup> or 30% of their annual base pay would buy at the option price of \$41.29 a share. (This option price, which was 95% of market, reflects the payment of a stock dividend.)

<sup>1</sup> If all the shares in the plan were not optioned by the first or second anniversaries of the effective date of the plan, employees hired during the intervening year could enter the plan on these anniversary dates. Such employees were permitted to option the number of shares purchasable at the option price by the lesser of \$2,400 or 20% of annual base compensation in the case of first anniversary entrants, and \$1,200 or 10% of annual base compensation in the case of second anniversary entrants.

They had forty days to retain their options by authorizing periodic "thrift" deductions toward the purchase price; and 47% (2,792) of them (1,323 hourly employees; 1,469 salaried management, and sales personnel) did so before the deadline. Since then, 634 of the participants have already purchased 10.5% of the 190,000 shares in the plan. The plan, moreover, has another year to run and 66% (1,917) of those who signed up<sup>1</sup> remain active participants who can still use their cumulative savings (which earn interest at 5% per annum) to buy the stock they hold under option. To date, less than 7% of the participants have reduced the amount of their payroll deductions.

#### The Grand Union Company

Grand Union has instituted two stock option plans for all its employees—one in 1951, the other in 1956. Both plans (containing the same general provisions) were scheduled to run for five years, and participants in the 1951 plan could also qualify under the 1956 plan. Eligibility rested on length of continuous service with the company—three years for supervisory executives, five years for other employees. The optioning of shares<sup>2</sup> (at 85% of market in the 1951 plan<sup>3</sup> and at 95% of market in the 1956 plan) was evidenced by warrants. Optioned shares could be purchased in blocks on February 1 and August 1 of the years specified in the warrant. Cash payment in full was required, but participants could direct the company to withhold regular amounts from their pay to accumulate the purchase price.

The 1951 plan expired December 31, 1956, but purchase on the last block of options granted under this plan may be made up to December 31, 1960. Originally, 64,000 shares were available for options; 18,133 of these shares were optioned to officers and directors of the company. The rest went to other employees. Between 1952 and 1956, after adjustments had been made for stock dividend payments and stock splits, a total of 150,364 shares were purchased by optionees at an actual cost of \$1,663,273.93. The market value of these shares on May 7, 1959 was \$7,969,292.

The 1956 plan is still in effect. After adjustments for a stock split and stock dividend payments, an

<sup>1</sup> Originally, 2,792 employees had signed up; but another 164 employees became eligible on the first anniversary of the plan (September 4, 1958), and 102 of them (fourteen hourly employees and eighty-eight salaried and sales personnel) became participants on that date. The option price for 1958 entrants remained \$41.29 a share; for those entering in 1959, however, it will be \$57.95 a share. Incidentally, if an employee does not join the plan on first becoming eligible, he cannot enter on a subsequent anniversary date.

<sup>2</sup> Shares were optioned by the board of directors. A determining factor was the income each individual received from the company in the form of base pay, bonuses and profit sharing. No participant could be optioned (in the aggregate) more than 7½% of the total shares in the 1951 plan, or more than 5% of all the shares in the 1956 plan. An exception was made, however, for the company president who could be optioned up to 15% of the shares in the 1951 plan and up to 10% of the shares in the 1956 plan.

<sup>3</sup> The 1951 plan permitted an option price that was 85% of market; but the option price actually used was 95% of market.

aggregate of 330,545 shares have been made available for options, with 93,378 of these shares going to officers. Between 1956 and 1958, a total of 19,497 shares were purchased by optionees at an actual cost of \$476,976.89. The market value of these shares on May 7, 1959 was \$1,033,341.

#### Inland Steel Company

In 1958, the Inland Steel Company switched from a stock option plan to a "special" stock purchase plan. The move was made because the company considered the stock purchase plan more flexible and more permanent. Eligible employees can enter such a plan at the beginning of each six-month period (and, if they want to, drop out and then reenter); the plan itself can last for ten years. Tax advantages are retained, too, since Inland's purchase plan involves the granting of options.

Previously, however, Inland had instituted two stock option plans for all employees who had two years' service and who were not members of the United Mine Workers. The first plan started in 1952 and expired in 1955; the second plan ran from 1955 to 1958. In both plans, eligible employees had thirty days to authorize payroll deductions and take options on as many shares of stock as 25%<sup>1</sup> of their previous year's earnings would buy at an option price that was 95% of market value at the time. Participants then had to wait one year before they could begin exercising their options.

In the 1952 plan, 18,909 employees were initially eligible for options. Of this number, 40% (7,602) signed up for payroll deductions. A little more than two-thirds of them were nonsupervisory employees. By the time the plan ended, 70% (5,362) of the original participants had purchased 159,302 shares of company stock (over 76% of the 207,959 shares originally taken under option). The option price was \$42.25 a share in the 1952 plan.

In the 1955 plan, 23,568 employees were initially eligible for options. Of this number, 47% (11,002) signed up for payroll deductions. By the time the plan ended, 72% (7,875) of the original participants had purchased 196,482 shares of company stock (over 84% of the 232,631 shares originally taken under option). The option price in the 1955 plan was \$69.75 a share.

Incidentally, employee acceptance of Inland's stock ownership plans gave an ironic twist to the 1959 steel strike. A little over a third of the company's production and maintenance workers who joined in the strike were actual owners of Inland stock.

#### The Mead Corporation

The Mead plan is tailored along the same general pattern as the Acme Steel plan. It took effect in 1958

<sup>1</sup> This 25% was for the first plan only; the figure was raised to 30% in the second plan.

and will expire in 1961. Originally, a total of 10,844 of all company employees<sup>1</sup> were eligible to option the number of shares that 30% of their annual compensation (as defined by the stock option committee) would buy at the option price of \$35 a share (95% of market). They had forty days to retain their options by authorizing regular payroll deductions toward the purchase price; and 24% (2,600) of them (940 hourly employees and 1,660 salaried or sales personnel) did so before the deadline.

Since then the one-year waiting period has elapsed, and 1,427 of the participants have already purchased 20% of the 250,000 shares in the plan. The plan, moreover, has well over a year to run and more than 93% (2,400) of those who signed up at the start remain active participants who can still use their cumulative savings (with interest at 3½% per annum) to buy the stock they hold under option. To date, a negligible number of the original participants have reduced the amount of their payroll deductions.

#### Minnesota Mining & Manufacturing Company

Minnesota Mining has instituted three stock option plans for all company employees—one in 1949, another in 1954, and a third in 1958. Participants in one plan were not disqualified for the other plans. The 1958 plan is scheduled to run for four years. All "regular permanent" employees,<sup>2</sup> as of the effective date of the plan (and on its first, second, and third anniversary dates), were made eligible to option the number of shares that 30% (or 22½%, 15% and 7½%, respectively, in the case of employees entering the plan on its first, second or third anniversary dates) of their annual base compensation would buy at the option price. The option price was 95% of the stock's market value on the plan's effective date (or 95% of market on subsequent entry dates, if not lower than any previous option price under this plan).

Eligible employees were given forty days to retain their options by authorizing regular payroll deductions toward the purchase price. During the month of July each year, participants may exercise their options to the extent of the number of shares purchasable at the option price by the balance in their stock option account<sup>3</sup> on June 30 of that year. This July,

<sup>1</sup> The plan specified as eligible all regular hourly paid and all full-time salaried employees, including those on layoff with recall rights and those on approved leave of absence. The only exclusion applied to salaried employees holding options in the company's earlier executive plan.

<sup>2</sup> Eligibility was withheld, however from any person who was (1) an owner of more than 10% of company stock, (2) a male employee past his sixty-fourth birthday or a female employee past her fifty-ninth birthday, (3) a director of the company, or (4) an employee on layoff or leave of absence other than military leave. Absence due to personal injury, illness, or military service did not affect status as a "regular permanent" employee.

<sup>3</sup> Interest, credited to each account at the rate of 1½% per annum on each month's balance, will be paid to the participant after the close of his option period.

for example, 10,837 participants were entitled to purchase a total of 57,854 shares at an option price of \$72 a share. And here's what happened: 94% (10,155) of these participants used their account savings to buy 55,263 shares (95.5% of the total).

Figures supplied by the company for all three plans show a steady growth in participation. In the 1949 plan, 33% (2,620) out of a total of 8,000 eligible employees accepted options at an option price of \$8.875 a share. In the 1954 plan, 55% (7,177) out of a total of 12,921 eligible employees accepted options at an option price of \$32.25 a share. In the 1958 plan, 75% (12,165) out of a total of 16,203 eligible employees signed up for the purchase of stock (4,239 of them hourly employees, and the other 7,926 belonging to the salaried, sales and management ranks). To date, less than 1% of the original participants have reduced the amount of their payroll deductions, and only 9% have dropped out of the plan. What's more, 63% (1,352) of the 2,132 employees eligible to enter the plan on May 13 of this year (the first anniversary of the plan) did so, even though their option price of \$137.75 (95% of market value on the anniversary date) almost doubles the original option price of \$72.

#### Chas. Pfizer & Co., Inc.

Pfizer has instituted two stock option plans for all company employees—the 1952 and the 1958 plans. Both plans (containing the same general provisions) were scheduled to run for five years, and participants in the 1952 plan could also qualify under the 1958 plan. Questions as to who participates (usually, all employees with a year of service), how many shares each participant may option (here, ability to pay controls), and what method is to be used to finance the purchase price (ordinarily, regular payroll deductions with interest of 2½% per annum paid on savings) were all left to the discretion of the stock option committee.

The option price was a minimum of 95% of market value on the date of the grant, again as determined by the committee (which was given the further right in the 1958 plan to invoke the 80% rule,<sup>1</sup> in the event a drop in the market were to make its use advisable). Options could be exercised, in whole or in part, at any time after a one-year waiting period by giving the company treasurer ten days' written notice and payment of the option price.

The 1952 plan expired in 1957. Out of an approximate total of 750,000 shares available for optioning under this plan (after adjustments had been made for a three for one split in the company's stock in 1957), almost 95% (710,439) of these shares were actually purchased at the adjusted option price of \$11.50 a

<sup>1</sup> For an explanation of the 80% rule, see "Preserving the Incentive Value of Stock Options," *Management Record*, January, 1959, p. 2.

share. And almost 5,000 company employees became shareholders through this plan.

The 1958 plan is still under way. Options already granted (at prices ranging from \$20.59 to \$35.92 a share) have several years to run, and further grants are expected in the future. To date, the company says, "we have been averaging an almost 90% participation by our employees, with virtually no subsequent cancellations or reductions."

Throughout its history, Pfizer has made its stock available to employees through various purchase plans. Those who participated and held on to the stock (it has split twenty-seven to one since its first listing) have fared well.

### Royal McBee Corporation

The Royal McBee plan is tailored along the same general pattern as the Acme Steel plan. It went into effect in 1958 and will expire in 1961. Originally, a total of 7,000 company employees with two years' service were eligible to option the number of shares that 30% of their gross earnings for 1956 or 1957 would buy at the option price of \$20 a share (about 100% of market). They had thirty days to retain their options by authorizing regular payroll deductions toward the purchase price; and 28% (1,927) of them (2,238 hourly employees; 1,179 salaried and sales personnel; and 141 from the management ranks) did so before the deadline.

Since then the one-year waiting period has elapsed, and 155 of the participants have already purchased close to 8% of the 100,000 shares in the plan. The plan, moreover, has several months to run and 83% (about 1,600) of those who signed up at the start remain active participants who can still use their cumulative savings (which earn interest at the rate of 3% per annum) to buy the stock they hold under option.

### The L. S. Starrett Company

As previously noted, the Starrett plan is not the usual type of stock option plan. Essentially, it is an employee installment purchase plan. The company sold eligible employees the optioned stock, issued the stock in their name, then held the stock as security pending payment of the full purchase price through periodic payroll deductions, cash deposits and any dividends paid on the stock over a ten-year period. The option feature, the company says, was included in the plan to spell out in advance the tax consequences of participation.

The plan had been approved by the stockholders in 1956, but its actual operation was held up for two years by a suit that unsuccessfully contested its validity. On March 12, 1958, exactly 18,000 of the 20,000 shares in the plan were optioned to 650 eligible employees (those with at least six months' service). Indi-

vidual grants ranged from five to sixty-five shares. The optionees had only thirty days to exercise their options; and when the thirty days had run out, 17,705 of the 18,000 shares optioned had been purchased at an option price of \$60 a share (100% of fair market value at the time of the grant). Since then, other shares in the plan, including a total of 439 that were reacquired by the company through the death, retirement or resignation of the buyers, have been accepted in further option grants at option prices of \$60.75 and \$67.25.

When the 1959 fiscal year closed on June 30, there were no options outstanding that had not been exercised, and there were available for additional options (after adjustments for a four to one stock split) a total of 172 shares. So great has been the response to the plan on the part of the employees generally, the company reports, that the four officer-directors eligible to participate were restricted to a total purchase of 150 shares each.

J. ROGER O'MEARA  
*Division of Personnel Administration*

## Management Bookshelf

**Introduction to Group Dynamics**—The authors state their purpose in writing this book as painting a picture of the whole field of group dynamics in broad, sweeping strokes. They hope to introduce the central ideas, the main research approaches, and the specialized language which social scientists use in an effort to be precise. They say: "This is not a 'how to do' book but rather a 'how to find out' book." Chapters are devoted to the development of the field of group dynamics, understanding individual behavior, understanding group behavior, and practical applications. An evaluation is provided in the chapter "What Does It Add Up To?" A bibliography of books, pamphlets, and periodicals about group dynamics is included for the benefit of those who would like to undertake further study. *By Malcolm F. Amon and Hulda Knowles, Association Press, New York, New York, 1959, 95 pp., \$2.50.*

**Management Consulting**—This paper-bound report is the work of a group of students in a manufacturing course at Harvard Business School. Based on information the students gathered from interviews, correspondence, published materials, and a special questionnaire, the report traces the history of management consulting in this country and outlines the conclusion of the authors with regard to such questions as when a consultant is needed, how to select and use a consultant, and what changes are likely to develop in consulting services in the years ahead. *By Richard F. Amon, Donald K. Clifford, Jr., Louis F. Dixon, George L. Grice, Jr., Charles E. Jacobs, Douglas C. Lee, Jr., Frederic C. Leiner, and Rodney W. Shirley, Management Consulting Report Associates, Mount Kisco, New York, 1958, 96 pp., \$7.50.*

# Wage and Fringe Negotiations in Bargaining

**Two recent labor contracts in the meat-packing and maritime industries have provisions that seek to deal with the delicate problem of automation**

**O**NE OF THE MOST delicate problems facing labor and management is automation—how to deal fairly and intelligently with workers replaced by automatic equipment. Installation of such labor-saving devices means reduced costs and greater profits to management—obviously desirable in a free economy. To labor, however, automation, as a general rule, means unemployment and dislocation.

A giant step toward a solution of this problem has been made recently in the meat-packing and maritime industries.

In negotiations between Armour & Company and its two meat-packing unions—the Packinghouse Workers and the Meat Cutters—the unions accepted the company's offer to establish a \$500,000 fund to help retrain and relocate workers made unnecessary by automation. The company's contribution to the fund will be based on output—1 cent for each 100 pounds shipped from meat-packing plants. Shipping weights will be based on periodic financial statements prepared by the company's food division. Contributions to the fund will terminate when they total \$500,000.

The fund is administered by a committee composed of nine trustees—four from the company, two from each of the unions, and one impartial chairman. Expenses of the representatives on the committee will be borne by management and the unions respectively, while fees and expenses of the impartial chairman will be paid out of the fund.

The committee is authorized to use the fund to study problems resulting from the modernization program and to make recommendations for solving these problems, including the promotion of job opportunities within the company, as well as training of employees to perform new and changed jobs. Expenditures for such training and retraining programs may be authorized by the committee. The committee is also authorized to consider such programs as transfer rights to plants covered by the master agreement and other methods that might help to promote continued employment opportunities for those affected by automation.

Findings and recommendations of the committee, while not binding on the company or the union, will serve as a guide to action. The final report and recommendations are to be made no later than six months

prior to the contract termination date, August 31, 1961.

Other aspects of the new contract include a wage boost and liberalized fringes. Wage rates are increased 8.5 cents an hour the first year and an additional 6.5 cents the next year. Two cents of the 1959 increase is an advance cost-of-living adjustment. While the escalator clause continues to operate in the new agreement, there will be no further increase unless the consumer price index rises enough to offset the 2-cent advance. The existing 14-cent-cost-of-living bonus is incorporated into base rates. The settlement also boosts company pension contributions, medical care benefits, and provides severance pay for workers laid off for two years or more.

## The Maritime Agreement

The Pacific Maritime Association and the International Longshoremen's and Warehousemen's Union have taken an approach to the employment problems created by automation which, in general terms, resembles the Armour approach. Like the Armour agreement, the Pacific Maritime agreement provides for employer contributions to a fund which is designed, among other things, to maintain job security. Also, both contracts call for a study period during which the company and the union may gain factual experience in arriving at a workable solution.

The maritime contract sets up a \$1.5 million employer-paid mechanization fund to cover the initial year of the agreement and to provide for further study of the problem of mechanization. During the year, the employers and the union are required to explore the changes made by mechanization, new methods of operation, and proposed changes in working rules and contract restrictions which result in reduced man power or man-hours.

The Pacific Maritime Association has appointed Dr. Max Kossoris, director of the western region of the Bureau of Labor Statistics, to head the study group on mechanization and its effects on ILWU dock workers. Dr. Kossoris will be "on loan" from BLS for one year, with the special consent of Secretary of Labor Mitchell.

The findings of the PMA study will be used in col-  
(Text continued on page 384)

# Significant Pay Settlements

Company, Union <sup>1</sup> and Duration of Contract	Pay Adjustments	Fringe Adjustments
<b>NONDURABLE MANUFACTURING</b>		
Armour & Company with <i>Meat Cutters and Packinghouse Workers</i> . Nation- wide. 15,000 hourly Effective 9-1-59. Contract expired New contract: 2 years	8.5¢ per hour general increase (includes 2¢ ad- vance in cost-of-living allowance); 14¢ cost- of-living allowance under former contract in- corporated into base rates Deferred increase: 6.5¢ per hour 9-1-60	Added: Technological unemployment fund Revised: Pension plan; medical benefits and paid vacation
Dudahy Packing Co. with <i>Meat Cutters and Packinghouse Workers</i> . Nation- wide. 4,500 hourly Effective 9-1-59. Contract expired New contract: 2 years	8.5¢ per hour general increase (includes 2¢ ad- vance in cost-of-living allowance); 14¢ cost- of-living allowance under former contract in- corporated into base rates Deferred increase: 6.5¢ per hour 9-1-60	Added: Technological unemployment fund Revised: Pension plan; medical benefits; paid vacation; severance pay; meal allowance and night bonus rate
John Morrell & Co. with <i>Meat Cutters and Packinghouse Workers</i> . Nation- wide. 6,000 hourly Effective 9-1-59. Contract expired New contract: 2 years	8.5¢ per hour general increase (includes 2¢ ad- vance in cost-of-living allowance); 14¢ cost- of-living allowance under former contract in- corporated into base rates Deferred increase: 6.5¢ per hour 9-1-60	Added: Automation fund Revised: Pension plan; medical benefits; paid vacation and severance pay
24 ladies' handbag manufacturers with <i>Leather Goods &amp; Novelty Workers</i> in New York. Approximately 11,500 salaried and hourly Effective 0-00-00. Contract expired New contract: 3 years	\$5 per week general increase for salaried workers; 25% increase in piecework rates; \$5 on mini- mum rates; hours reduction from 40 to 37.5 hours per week	Added: 2 holidays Revised: Pensions
<b>DURABLE MANUFACTURING</b>		
American Bosch Arma Corp. with <i>UE</i> in Springfield, Mass. Approximately 1,500 hourly Effective 8-14-59. Contract expired New contract: 3 years	No general increase effective 1st year Deferred increase: 6¢ per hour effective 2nd year; additional 7¢ per hour effective 3rd year	Revised: Hospital benefits; sickness and accident benefits; major medical plan; and pension plan
American Brass Co. with <i>Mine, Mill &amp; Smelter Workers ind.</i> in Ansonia and Torrington, Conn. and Buffalo, N. Y. Ap- proximately 2,800 hourly Effective 7-1-59. Contract expired Contract expires 7-1-61. Wage reopening 7-1-60	7¢ per hour general increase	No change
Armstrong Rubber Co. with <i>Rubber Workers</i> at West Haven, Conn.; Des Moines, Ia.; Norwalk, Conn.; and Natchez, Miss. Approximately 2,700 hourly Effective 7-22-59. Contract expired New contract: 2 years	Wages were not at issue	Revised: Employee benefit plan including pen- sion and insurance; SUB plan; limited paid grievance time; supplemental workmen's com- pensation payment
Congoleum-Nairn, Inc. with <i>Rubber Workers</i> in Wilmington, Del. and Trenton and Kearny, N. J. Approximately 1,300 hourly Effective 8-1-59. Contract expired New contract: 1 year; pension and insurance plan: 3 years	6¢ per hour general increase	Revised: Vacation plan; pension and insurance agreement
Curtiss-Wright Corp. (Wright Aeronautical Divi- sion) with <i>UAW</i> (office and clerical) 2,000 salaried and with <i>UAW</i> (production and maintenance) 400 hourly Effective 9-14-59. Contract expired New contract: 2 years	General increase of from \$1.60 to \$2.40 for a 40-hour week  5¢ per hour general increase	Revised: Group insurance and vacation provi- sions  Same as above
General Controls Co. with <i>IAM</i> in Glendale, Calif. Approximately 1,800 hourly Effective 6-29-59. Contract expired New contract: 3 years	2½% general increase Deferred increase: Additional 2½% increases effective 5-23-60 and 5-29-61	Revised: Vacation benefits

## Significant Pay Settlements—Continued

Company, Union <sup>1</sup> and Duration of Contract	Pay Adjustments	Fringe Adjustments
Goodyear Tire & Rubber Co. with <i>Rubber Workers</i> . Nationwide. Approximately 24,000 hourly Effective on 60 day notice. Wage reopener Contract expires 4-15-61	10¢ per hour general increase; plants have option of increasing night shift differential by deduct- ing amount from wage increase	No change
Keasbey & Mattison Company with <i>Cement, Lime &amp; Gypsum Workers</i> in St. Louis, Mo. 200 hourly Effective 8-16-59. Contract expired New contract: 2 years	8¢ per hour general increase on base pay; 5¢ general increase for pieceworkers Deferred increase: Additional 8¢ and 4¢ for each group respectively, effective 2nd year	Revised: Accident and sickness benefit and noncontributory Blue Shield, effective first year; vacation plan, effective 2nd year
Potlatch Forests, Inc. with <i>Woodworkers</i> in northern Idaho. Approximately 8,000 hourly Effective 6-1-59. Contract expired New contract: 2 years	7½¢ per hour general increase; additional 2½¢ per hour average for classification adjustments Deferred increase: Additional 2¼¢ for hourly employees and 5½¢ for pieceworkers, effective in 1960	Revised: Vacation plan; group life insurance accident and health benefits
Scovill Mfg. Co. with <i>UAW</i> in Waterbury, Waterville and New Mil- ford, Conn. Approximately 3,200 hourly Old contract was amended 6-30-59 and ex- tended to 8-1-61	No general increase Deferred increase: 3% effective 1-60; additional 2½% effective 1-61; revised escalator clause	Added: SUB fund Revised: Pension plan
U. S. Rubber Co. with <i>Rubber Workers</i> . Nationwide. Approximately 26,000 hourly Effective on 60 day notice. Wage reopener Contract expires 6-1-61	10¢ per hour general increase; plants have the option of increasing night shift differential by deducting amount from 10¢ wage increase	No change
<b>NONMANUFACTURING</b>		
Consolidated Water Power & Paper Co. with <i>Papermakers &amp; Paperworkers</i> at Wisconsin Rapids, Wis. 1,128 hourly Effective 5-15-59. Contract expired Contract expires 4-30-60	3½% general increase	Revised: Vacation plan and retirement plan
Pacific Maritime Association with <i>ILWU</i> on West Coast. 17,000 hourly and clerical Effective 6-15-59. Contract expired New contract: 3 years	Hourly employees: 11¢ per hour increase for 6-hour day; 12.5¢ per hour increase for 8-hour day Clerical employees: 14¢ per hour general in- crease; additional 4¢ per hour to supercargoes and chief supervisors Deferred increase: Additional 1.5¢ per hour to clerks in 1960 and 1961. Additional 4¢ per hour to supercargoes and chief supervisors in 1960 and 1961	Added: Mechanization fund Revised: Vacation provisions and welfare plan

<sup>1</sup> All unions are affiliated with the AFL-CIO unless otherwise indicated.

(Continued from page 382)

lective bargaining in 1960, when the three-year ILWU agreement will be open for review of wages, mechanization and hours.

In addition, the PMA-ILWU agreement increases wage rates. For men paid on a six-hour-day basis the boost is 11 cents an hour, retroactive to June 15, 1959. This brings the basic straight-time rate for these employees to \$2.74 an hour and the overtime rate to \$4.11 an hour. For special categories of longshoremen traditionally paid on an eight-hour straight-time basis, the basic rate is increased by 12.5 cents.

The rates for clerks are increased 14 cents an hour, bringing their base hourly pay to \$2.93 and their over-

time rate to \$4.395. (This is 1.5 cents more than the increase applicable to longshoremen on an eight-hour basis.) Also, clerks will receive additional increases of 1.5 cents an hour in 1960 and 1961. Thus, over the three-year period of the contract, their total increase amounts to 18.5 cents. This wipes out the earnings differential between clerks and longshoremen.

Over and above these increases, supercargoes and chief supervisors are to receive 4-cents-an-hour increases each year of the contract. This additional increase, totaling 12 cents, wipes out the earnings differential between these men and walking bosses.

N. BEATRICE WORTHY  
Division of Personnel Administration

# Studies in Personnel Policy

- No. 174—Severance Pay Patterns in Manufacturing
- No. 173—Compensation of Top Executives
- No. 172—Preparation for Collective Bargaining
- No. 171—Company Medical and Health Programs (Revised)
- No. 170—Automobile Allowances for Sales Personnel
- No. 169—Statements of Personnel Policy
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- No. 167—Clerical Salaries in Eighteen Cities
- No. 166—The Alcoholic Worker
- No. 165—Organization of Staff Functions
- No. 164—Clerical Salaries in Twenty Cities
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- No. 143—Fringe Benefit Packages
- No. 141—Severance Pay Plans
- No. 140—Management Development
- No. 139—Company Organization Charts
- No. 138—Bulletin Boards

## In the November Business Record

**Business Highlights**—The prolonged steel strike has substantially altered the shape and dimension of the general business cycle to a degree unprecedented in postwar years. The fourth quarter will not show the rapid pickup that had been expected; dislocations caused by the strike have already deferred output not simply out of the third quarter but out of the fourth as well. The "standard forecast" assumes that the poststrike boom predicted for the early quarters of 1960 will now run throughout that year—in other words, the recovery has been deferred by several quarters. Two variations on this outlook highlight deflationary and inflationary impacts of the strike on the recovery period.

**1960 Federal Budget—A Midyear Review**—At an expenditure level which is only moderately below the peacetime peak of fiscal 1959, and with an estimated sharp increase in revenues to an all-time high, the 1960 budget is expected to be precariously balanced. To evaluate the impact of the government budget on general economic activity it is necessary to consider the "cash budget" rather than the regular budget. This article considers the outlook for fiscal 1960 and compares current estimates with the earlier January ones and with actual 1959 figures.

**Regional Price Differentials**—Conflicting rulings by courts in the seventh and tenth circuits have brought new attention to the Robinson-Patman Act and its application to problems of regional pricing. Headed for resolution by the Supreme Court, these lower court decisions raise critical questions concerning a seller's freedom to charge different prices in different geographic areas where competitive conditions are unlike. The difficulties of distinguishing price concessions that are part of a normal competitive process from those that endanger competition are outlined.

**The Business of Christmas Giving**—The 291 manufacturing firms studied in this month's survey of business opinion and experience employ a variety of methods for exercising control over business Christmas gifts. While some prohibit the giving or accepting of any gifts whatsoever, others limit the value of the gifts. The companies report on the types of gifts they give and note changes, such as the substitution of charitable contributions for personal gifts, that have recently been made in their policies. Means of gaining customer and employee cooperation are also discussed.

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